

**STAKEHOLDER REPORTING: THE SPANISH TOBACCO MONOPOLY
(1887–1986)**

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This is an Accepted Manuscript of an article published by Taylor & Francis Group in European Accounting Review, 2009, 18(4), pp. 697-717, available online: <http://www.tandfonline.com/doi/abs/10.1080/09638180902863753>. Please cite the published version.

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Acknowledgements: This research was partially funded by the SEJ2005-01913 and P06-SEJ-1821 research projects. We are grateful to participants at the 4th Workshop on Management and Accounting in Historical Perspective, Bologna 2005 for their many helpful suggestions on earlier drafts of this paper. We would like to thank Salvador Carmona (the editor) and two anonymous reviewers for their many constructive comments.

STAKEHOLDER REPORTING: THE SPANISH TOBACCO MONOPOLY (1887–1986)

ABSTRACT

Stakeholder theory explains organisational responses to changing demands from constituents. Almost all accounting research drawing on stakeholder theory addresses social responsibility issues. In contrast, we examine how our focal firm, the Spanish tobacco monopoly, responded to stakeholders' demands through its annual reports over the century 1887–1986, that is, from the privatization of the firm's administration to the loss of monopolistic conditions as a consequence of Spain's entry into the European Economic Community. Our findings reveal how these reports reflected the changing importance of different categories of stakeholders as well as the alignment of financial reporting with organisational responses to stakeholders' demands. Throughout this period the firm's major strategic stakeholder was the state, and the dramatic changes in Spanish forms of government, as well as a change in the state's status vis-à-vis the firm (until 1945 as lessor of the monopoly, and thereafter also as a major shareholder) affected the amount and type of financial information in these reports; however, the strategy remained generally proactive until 1945 and accommodative thereafter. Other strategic stakeholder was the workers, and equally dramatic changes in Spanish labour activism affected the reporting of worker welfare programs. After Spain's democratization, society in general became a more important stakeholder, and reports began to address tobacco-related health concerns.

Key words: stakeholder, annual reports, accounting history, tobacco monopoly, Spain.

Stakeholder theory examines organisational responses to changing environmental conditions (Freeman, 1984). Accounting research drawing on stakeholder theory mostly focuses on issues related to social and environmental reporting. Studies in this stream of research have significantly enhanced understanding of corporate social disclosure (Roberts, 1992) and sustainability reporting (O'Dwyer, Unerman and Hession, 2005), as well as social expectations arising from environmental reporting (Bouma and Kamp-Roelands, 2000). Despite this wealth of research, we still have much to learn about the relationship between stakeholders and financial reporting. A longer historical perspective could help, as it may exhibit larger-scale changes in stakeholders' demands.

Our study focuses on an organisation that held a long-lasting for-profit, state-owned monopoly. Our observation period begins in 1887, when the private *Compañía Arrendataria de Tabacos* (CAT) was founded to manage the state tobacco monopoly, which for centuries had been a main contributor to the finances of the Spanish state (Carmona et al., 1997, 2002; Carmona and Macías, 2001). In 1945 CAT was replaced with *Tabacalera*, a limited company in which the state was the majority shareholder. Our study period ends in 1986, when Spain joined the European Economic Community and Tabacalera ceased to hold the whole a monopoly on tobacco products in the Spanish market. Previous research has examined the Spanish tobacco monopoly from an accounting perspective (e.g., Macías, 2002a,b). In particular, Macías (2002a) addressed the determinants of accounting disclosure on the part of the tobacco monopoly between 1887 and 1896. Here, we adopt a longer-term perspective and examine qualitative as well as quantitative reporting to identify responses to various stakeholders' demands. During our observation period, the tobacco monopoly improved its financial performance and significantly contributed to manufacturing employment (e.g., 3% in 1887, Rey Reguillo, 1998, p. 18) and to the state's finances (e.g., 1% of GNP in 1982, Annual Reports, 1982, p. 92).

During our century-long observation period, Spain experienced a number of major changes: the loss of its overseas colonies in 1898, the First and Second World Wars, the Spanish Civil War (1936–9), Franco's dictatorship and the ensuing isolation of Spain (1939–53), economic development plan 1959) and joining the EEC in 1986. Through all these massive changes, the tobacco monopoly (as CAT between 1887 and 1944, and Tabacalera from 1945 to 1986) used its annual reports to reflect dominant political and social values and convey these standards to stakeholders.

Our investigation differs in theoretical perspective from other wide longitudinal studies examining the annual reports of firms. Tinker and Neimark (1987) used a political economy perspective to examine the annual reports of General Motors during 1917–76. In a related vein, Guthrie and Parker (1989) drew on the insights of legitimacy theory to examine the annual reporting of US Steel and Broken Hill Proprietary (1885–1985). We rely on stakeholder theory because annual reports reflect the demands and influence of stakeholders. We also draw on Jawahar and McLaughlin (2001) to address how the reporting strategies evolved over a long period of time.

THE FRAMEWORK

Freeman (1984, p. 25) defines a stakeholder as 'any group or individual who can affect or is affected by the achievement of the firm's objectives'. Stakeholder theory focuses on the relationship of the firm with each of its stakeholders (Donaldson and Preston, 1995; Harrison and Freeman, 1999) and argues that a company will increase its value provided it acts to meet the needs of each category of stakeholders. As Freeman (1984) puts it, 'if you want to manage effectively, then you must take your stakeholders into account in a systematic fashion' (p. 48).

Organisations maintaining successful links with stakeholders will gain competitive advantage (Hillman and Keim, 2001) and outperform their counterparts not doing so (Jones, 1995; Scott and Lane, 2000). Freeman (1999), following Goodpaster (1991), classifies stakeholders into two groups: strategic and moral stakeholders. Strategic stakeholders can influence the company's performance, and special consideration must be given to them. Given the importance of strategic stakeholders, companies will endeavour to meet their expectations. Moral stakeholders are also affected by organisational decisions. Firms should balance their responses to different stakeholders.

Johnson and Scholes (1993) complement this classification by describing four types of organisational strategies that the firm can use to comply with demands from different categories of stakeholders. The *proactive* strategy aims to incorporate into the organisational strategy the interests and expectations of any stakeholder holding a dominant position over the organisation. The *accommodative* strategy attempts to satisfy the interests of the stakeholders. The *defensive* strategy consists of complying only to the minimum degree legally required. Lastly, the *reactive* strategy features reactions to stakeholders' demands or quite simply ignores them (Miles et al., 1978; Carroll, 1979; Clarkson, 1995). Jawahar and McLaughlin (2001) find that, in a loss frame, the company will adopt a risk-seeking strategy (defensive or reactive) for non-critical stakeholders and a risk-averse strategy (proactive or accommodative) for critical stakeholders. In a gain context, conversely, firms will go for risk-averse strategies with respect to any stakeholder.

Accounting and stakeholder theory

Accounting studies drawing on stakeholder theory have focused overwhelmingly on corporate social responsibility issues. Roberts (1992), for example, tests the extent to which stakeholder theory may explain social responsibility disclosure. He finds that measures of stakeholder power, strategic posture and economic performance are significantly related to levels of corporate social disclosure. In a related vein, Woodward, Edwards and Birkin (1996) investigate how organisational legitimacy might drive corporate social activities by linking the expectations of each stakeholder to organisational practices of accountability. O'Dwyer, Unerman and Hession (2005), analysing the perspectives of Irish-based social and environmental non-governmental

organisations (NGOs) as stakeholders of corporations performing sustainability activities, show that the NGOs are suspicious of the underpinnings for sustainability reporting, although some are optimistic about improving this practice and increasing its usefulness. Moneva and Llena (2000) examined environmental reporting practices in a sample of Spanish firms during 1992–4. These firms increasingly reported environmental information whether they operated in regulated or non-regulated markets. Finally, Gray et al. (1997) showed that stakeholders' needs can be subsumed morally into those of the organisation.

In an exception to the general focus on corporate social responsibility, Scott, McKinnon and Harrison (2003) carry out a historical analysis on two publicly funded hospitals in New South Wales during the period 1857–1975. They focus on the technical aspects of accounting practices, particularly on the adoption of accrual or cash basis methods as a consequence of the pressures of one stakeholder, the government. Drawing on the insights of stakeholder theory, they find that a stakeholder must have power to exert influence, but there must also be incentives to make that influence operational. This conclusion may explain why cash accounting remained in use in the two hospitals during a long period (1857–1935), in contrast to what happened in the private sector, and why the implementation of accrual accounting during 1936–75 resulted in a return to cash basis accounting in 1975 and the later re-implementation of accrual accounting.

THE CONTEXTS OF THE TOBACCO MONOPOLY

During our study period Spanish society witnessed dramatic changes in political regimes: monarchy, republic, military dictatorship, and a full-fledged democracy (see the chronology in Table 1). These changes arguably affected the state's influence on our focal firm (Núñez-Nickel, Gutiérrez and Carmona, 2006). The workforce of the tobacco monopoly also exhibited a varying profile, ranging from labour activism during the end of the nineteenth century, the years 1917–21, and the Second Republic, to enforced quiescence during General Franco's dictatorship, which prohibited unionism.

CAT was founded in 1887, during the 'Restoration regime' (1876–98), a time of political and economic stability that witnessed the alternation of liberal and conservative governments. In 1876 a liberal constitution had assigned sovereignty to the king and parliament ('Las Cortes') and made Spain a democratic country (Comellas, 1990). Later, in 1898, Spain lost its overseas colonies (Cuba, Puerto Rico and the Philippines).

The post-Restoration period featured the consolidation of unions and rising class feeling among workers. The socialist *Union General de Trabajadores* (UGT, General Workers Union), for example, increased its membership from 6,154 members in 1896 to more than 43,500 in 1904 (Manzano Rodríguez, 2000). During the years immediately before the First World War (1910–4), the Spanish economy grew significantly. As Tortella (1990, pp. 145–6) notes, 'the Spanish economy continued the trends of the last decade of the nineteenth

century but at a somewhat faster pace. ... The per capita income rose by an annual average of 1.3%, nearly double the results for the second half of the nineteenth century'. Nevertheless, during the war, Spain did not capitalize on its neutrality to boost its economy, because the country lacked human and technological resources. Although output increased, it did not measure up to the expected productivity levels. At the end of the war, overproduction led to an economic crisis due to reduced exports and languishing domestic demand. This led to the closure of firms (more than 6,000 companies between 1919 and 1922), and widespread social pressure to keep salary levels up. Moreover, between 1917 and 1923 there was a political crisis, in addition to an economic crisis and significant social unrest (Broder, 2000).

In 1923 General Primo de Rivera declared a state of emergency and asked the king to dissolve parliament and hand over Spanish government to him. The dictatorship, which was supposed to lead to a democratic government in the short term, lasted until 1930. The Primo de Rivera government founded some big state-owned monopolies (e.g., telephone, 1924; petrol, 1927). The country improved its infrastructures, and some commentators regard the 1920s as a time of optimism (Carreras and Tafunell, 1994). In 1930, however, concomitant political and economic forces put an end to the Primo de Rivera dictatorship.

In 1931, the Second Republic replaced the monarchy of King Alfonso XIII amid democratic reforms, but over the next six years it faced a widespread financial crisis, high levels of unemployment and powerful unions. Furthermore, the country was socially and politically divided into supporters and critics of the Republic; governments of different ideologies ruled the country during short periods of time, bringing about reforms and counter-reforms that provided a basis for General Franco's military push in 1936. The Civil War lasted three years and ended with a deep division of the Spanish people, a weak economy and destroyed infrastructures. Comellas (1990, p. 505) points out that Spain lost in three years what it had gained in thirty, as its economic level returned to that of the beginning of the century.

Although Spain remained neutral during the Second World War, again the country could not capitalize on its neutrality to make economic improvements. The country was destroyed by a war which lasted three years and poor agricultural performance resulted in food shortages, rationing and widespread black markets. The Civil War brought about the political isolation of the country (e.g., Spain was banned from joining the United Nations) and a soft economic embargo. Spain was excluded from the 1947 Marshall Plan, and did not receive international aid until 1950. In the latter year the United Nations allowed Spain to become a member, which led to greater freedom of movement and some economic expansion. Still, Spain was denied entry to the Common Market at the time of its founding (1957) on the grounds that it was not a democracy. Real economic expansion did not begin until 1959, when Spain joined the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), and when the important economic and social measures of the well known Stabilisation Plan were also put into place, allowing for international recognition in the political arena as well as foreign investment.

Expansion continued until the energy crises of the 1970s. After Franco's death in 1975, Spanish political life returned to normal. The passing of the liberal Constitution of 1978 made the country a full-fledged democracy, and Spain joined NATO in 1982 and the EEC in 1986. Full EEC membership led to widespread legislative reforms to adapt Spanish legislation to EEC requirements, with reforms of Spain's stock exchange and audit professions in 1988.

Table 1 to appear about here

STAKEHOLDER REPORTING

During the CAT period (1886–1945), qualitative information accounted for about five times more space in the annual reports (16–25 pages) than quantitative information (3–5 pages). In 1945, the Franco dictatorship changed the juridical form of CAT and constituted Tabacalera, S.A., which in turn changed the proportions of qualitative and quantitative information; quantitative content became significantly longer (16–18 pages) than qualitative (11–13 pages). By the end of the dictatorship, however, qualitative content totalled 80% of page count. In this investigation, we focus on the reporting practices of the tobacco monopoly vis-à-vis three important stakeholders: the state, the workers and society.

The State

Given the varying importance to qualitative and quantitative information in the annual reports of our focal firm, we distinguish between the two firms that handled the tobacco monopoly during our observation period.

Reporting under CAT (1887–1945)

In 1887, the tobacco monopoly produced 90 million pesetas, or 12.5% of the Spanish state's income. Beginning in that year, the Ministry of Finance leased the monopoly to the *Banco de España*. Albeit a private institution, the bank had a close relationship with the state, which exerted a powerful influence on the bank's release of accounting information (Annisette and Macías, 2002). The same year, the bank founded CAT to manage the tobacco monopoly. Until 1900, the state received a flat annual rent worth 90 million pesetas, plus variable dividends linked to the firm's profits. Under state dominance, CAT required rigid bureaucratic procedures for making decisions, including decisions on setting up new factories, purchasing machinery, and pricing. Importantly for our purposes, the state enforced changes in CAT's accounting and reporting system: 'In accordance with state intervention in our company, important reforms were introduced into the accounting systems of the company' (Annual Reports, 1897–8, p. 11).

At this early stage, CAT's annual reports contained qualitative information and from twenty to thirty separate financial statements. These statements were

presented in three groups: main statements (*Balance de libros*¹ [Balance sheet book], *Liquidación anual de la Renta*² [Income statement of the monopoly] and *Liquidación general de la Compañía*³ [Income statement of the managing company]); notes to the income statement of the company (e.g., *Statement of the profit from sales of peninsular products, both modern and old*); and statements about manufacturing, sales and inventory (e.g., *Statement detailing tobacco supplied to the workshops*)⁴. At this early stage, the balance sheets showed memorandum⁵ as well as regular accounts. Inventory was recorded at market value. In 1890–1 CAT improved its financial performance and reported profits of 5,866,577.86 pesetas, which represented a 9.78% yield over share capital and a shift from previous year losses of 1,672,578.51 pesetas.

After sustained improvements in its financial performance, CAT sought a long-term contract and a flat rent. The negotiations with the state yielded a 25-year lease (1896) and a new formula for calculating the transfer of funding to the monopoly. The state would also participate in CAT's losses, and the company would no longer need prior approval from the Ministry of Finance to launch new products.

In 1898 Spain lost its colonies in Cuba and the Philippines, with resulting shortages of tobacco leaves and price volatility. CAT's annual reports presented extensive information about the impact of this context on the firm's operations and financial performance. CAT repeatedly requested autonomy to set up new factories and new sources of supply of raw materials, as well as access to new markets.

The beginning of the twentieth century reinforced the state's dominance over the firm. Strict controls spanned every aspect of organisational life. CAT had to request prior authorization from the state for decisions such as acquisition of machinery and price setting. Furthermore, on October 20, 1900 the state issued a decree that replaced the flat rent system with commissions commensurate with the volume of profits. For example, the state would perceive 95% of the net profit for the first 120 million pesetas, 90% between 120 and 150 million, and 95% above 150 million.

The annual increase of tobacco profit increased from 10% during 1898–9 to 17% in 1899–1900, as a result of increasing production and mechanisation. The 1900 annual report predicted that 'the transformation of the old machines ... will

¹ This book covers the entire stock of the monopoly, including the assets and liabilities of the state as well as those of the company.

² '*Renta*' covers the whole range of activities in which the monopoly was engaged. This statement includes sales income, costs and overheads, so that the net amount generated by the monopoly can be estimated.

³ This statement shows the result obtained in the income statement of the monopoly together with the revenue and expenses of the company itself, including the payment to the state.

⁴ A detailed description of the accounting statements included in the annual reports is given by Macías (2002a, p. 329).

⁵ Memorandum accounts reflect complementary information of some items, and they do not take part of the assets, liabilities and equity.

lead to a doubling in production and highly accurate work' (1900, p. 23). This period of growth and expectations was hindered by the economic and social difficulties caused by World War I. In 1914, the annual reports pointed out, 'It is worth noting the adverse effect of the war in Europe. ... The financial period which began with a typically upward trend saw this adversely affected by the bloody conflict that is dividing the most powerful and civilised nations of Europe' (1914, pp. 11–2). Furthermore, the war made it hard to get materials and machinery, driving up costs and constraining financing. CAT's factories struggled to ensure the supply of materials: 'May 1919 witnessed the start of a series of strikes to enforce workers' demands ... and some manufactories had to be shut for varying periods of time' (1919–20, p. 10).

The aftermath of the First World War witnessed a significant increase in the state's income. In 1924–5, the state received 27,620,371.72 pesetas, quadrupling previous year's increase. The accounting reports included qualitative information and charts to account for this and highlight improvements made by the firm's management. The charts displayed three categories: revenues collected; income received by the state, i.e., the portion transferred to the treasury; and income received by the company.

During the Spanish Civil War (1936–9), the firm's properties were divided between the territories under control of the two factions. The regular reporting system was reduced to the following documents: 'Notes on the management of CAT from the beginning of the Glorious National Movement till December 31, 1937', published in Burgos; 'Notes on the management of CAT from January 1, 1938 till March 31, 1939', published in Madrid; and a 'Report from 1936 to 1939', which was published in Madrid and included the two aforementioned notes in an appendix. The 1936–7 report rationalized the lack of published financial reports during the Civil War period: 'The authorities in effect pre-empted the publication of the decree of the 17th February 1937 which suspended statutory and legal norms relating to the obligation to finalise accounts for the preceding financial year and to call a share-holders meeting to approve the results' (1936–7, p. 3). Problems with the supply of materials and distribution of finished products were reported as follows: 'Some problems worsened such as packaging due to the scarcity of raw materials, the difficulty of distributing the products due to the lack of overland transport, and problems with the level of production, the company having been constantly urged to meet increasing consumer demand' (1938–9, p. 80). The document for 1936–9 specifies that the most relevant statement is the 'balance sheet for the 1st April 1939 [the end of the Spanish Civil War], and everything is based on this when accounting subsequently returns to normal' (p. 14).

Accounting practices from the 1945 contract on (Tabacalera, SA): thorough but succinct information

In two reports published before the foundation of Tabacalera in 1945, CAT extensively addressed the contract with the state. For the new firm, the state would act not as a lessor of the monopoly to the *Banco de España* but as a shareholder that owned 47.74% of Tabacalera's capital. In addition, as a consequence of the 1945 contract, there were changes to the system of

commissions; the state would receive 92.25% of the net profit produced by domestic products, 98.50% from imported products and 99% from stamps, matches and cigarette paper. The net profit would be calculated as sales net of taxes less production and distribution expenses and agents' commission. Although this situation did not bring about major changes in management practices, the financial accounts now included cost accounting calculations such as a classification of functional expenses into supply costs, manufacturing costs, distribution costs and administrative costs. For the first time, Tabacalera's balance sheets valued inventory at cost rather than at the sale price set by the state. The financial accounts included two new statements covering the new business lines, *Liquidación de la Renta de Cerillas* [Match income statement] (1945–56) and *Liquidación del Servicio del Papel de Fumar* [Cigarette paper franchise income statement] (1945–56). From 1945 on, the tobacco income statement was divided into Peninsular (domestic) Products (1945–86) and Imported Products (1945–86). The section entitled 'Summary of the financial year' included information about company policy and planning. In this regard, the report issued in 1949 said, 'we have reached the point of intensive exploitation of the available raw materials without compromising the quality of the finished product ... It is unnecessary to stress that at no time has there been any question of our product being diluted, or of any other plant being added to the tobacco, even if certain disingenuous comments or snide remarks may have seemed to suggest the opposite' (1949, no page number).

The reports kept a similar scheme from 1945 to 1971. They contained about twelve pages of qualitative information (e.g., acquisitions, manufacturing process and staffing). Quantitative information was reported in a separate section entitled 'Accountancy and Statistics', which included the balance sheet, the income statement of the company and the income statement of the monopoly (tobacco and other products). The reports provided a series of charts setting out income transferred to the state for each product, contribution of each product to total income and comparisons with corresponding figures for previous years.

In 1971 the state extended the contract and hence endorsed Tabacalera's management. 'The board [of directors] deems the outcome ... to be entirely satisfactory; the twenty-year extension of the contract is an expression of the state's gratitude for the efficient way in which the management and administration of the monopoly have been conducted' (1970, p. 13). This contract extension was accompanied by increases in share capital by 184,466,500 pesetas in each of 1971 and 1972, and by 553,399,000 pesetas in 1973, which brought total share capital up to 1,660,197,000 pesetas. Furthermore, the state increased from seven to ten members out of a total of eighteen) its participation in the board of directors.

From this new contract (1971) on, Tabacalera's external reporting experienced substantial changes. In contrast to the austere presentation featured in the annual reports of the firm since its inception, the annual report for 1972 exhibited increases in length, a sixfold increase in the number of pages devoted to qualitative information, colour binding and photographs. In this and

subsequent years, the annual reports started with a letter from the chairman laying out strategies and actions.

The content of Tabacalera's financial statements was affected by the enforcement of the General Accounting Plan (GAP) of 1973, when for the first time there appeared a specific accounting standardization in Spain. Although firms were asked to adopt the GAP voluntarily, the Ministry of Finance specifically authorized Tabacalera to do so. Ultimately, this move resulted in formal changes as Tabacalera's accounting system was adhered to the GAP fundamentals. However, the qualitative information reported by Tabacalera did not change over this period.

Reference to Spain's entry into the European Economic Community constituted a common topic in the chairmen's letters. Additionally, the annual reports made clear references to the company's contribution to public income. The 1982 report said, 'Tabacalera's contribution to the state as a result of managing the monopoly rose to 187,161 million pesetas in 1982, an 11% increase over the previous year's contribution' (1982, p. 88). This figure shows the importance that the management of the company had for the state budget and the Spanish economy in general, as it amounted to 1.04% of GDP (1983, p. 93).

The tobacco monopoly began to be run down to gradually anticipate Spain's entry into the EEC in 1986. This entry allowed imports of wholesale tobacco products from within the EEC, but the monopoly was retained for the making, importing and distributing of tobacco products from outside the EEC. As a result, the company had to be efficient enough to operate in a free market. In 1985, the chairman's letter said, 'There are crucial periods in the life of any business, and 1985 has undoubtedly been one of these ... it represents the beginning of a decisive stage for Tabacalera, in which the company had to be competitive in a Europe of the twelve with no other weapons at its disposal than its own competence' (1985, p. 10).

The workers

Spain's political, economic and social situation played a definite role in how CAT and Tabacalera addressed human resource management issues. For example, for several years after General Franco's victory in the Spanish Civil War the firm's annual reports did not present any information targeted to workers. Conversely, with the advent of the Spanish democracy in the 1970s, Tabacalera's reports conveyed a considerable amount of information to its workforce.

Adaptation and claims on the part of staff (1887–1923)

In 1887, CAT had a workforce of about 32,000, mainly female, and this represented 3% of the total Spanish workforce in manufacturing (Rey Reguillo, 1998, p. 18). Traditionally, the workers contested managerial attempts to increase efficiency, so the pace of reform was slow to avoid conflicts. The 1887–8 reports said, 'Any reform needs to be thought through before a decision is taken to implement it; even then, there may be serious problems and

obstacles in putting it into practice, especially if its implementation depends partly on a workforce that has become infused with a spirit of indiscipline' (1887–8, p. 27). During this period the firm witnessed several strikes and riots: 'Reforms brought in with this aim [of improving product quality] led to the unrest that occurred in the Madrid factory in October 1887' (1887–8, p. 14); 'As a result of the introduction of new tasks and a change in cigarette paper, and despite a pay rise, riots broke out in the factories in Alicante and Cadiz' (1888–9, p. 10). Again between 1917 and 1921 there were various work disputes: 'production has gone down, ... because of industrial unrest in the tobacco factories' (1919–20, p. 10), at a time when Spain was going through a political, social and economic crisis, with respect to which the company 'has at every moment retained absolute neutrality, trying only to ensure the right of everyone to work' (1920–1, p. 9).

Notwithstanding these tensions, the reports showed CAT's concerns about social issues: 'As a consequence of the statutory reform of 29th April 1894, [there are] new improved guidelines for central offices, including the proper management of the payroll and of the workforce' (1894–5, pp. 9–10); 'The board, being concerned to provide for the company's employees, has examined and continues to examine carefully, the possible creation of a fund for dependents' (1896–7, p. 14); 'The school [a centre for training personnel] ... will be considered as one of the most gratifying [initiatives] in the history of our company, for it means the creation of a centre providing teaching of a sort that has been abandoned in Spain, thereby improving the educational level of the nation' (1897–8, pp. 7–8). In response to union pressures, CAT enforced measures to enhance health and safety conditions, thus anticipating legislation: central heating was installed in factories, and nurseries were set up for the children of women workers. Annual reports recorded an allowance to assist widows and orphans. In 1906 CAT set up auxiliary task workshops for 'those female factory workers who because of their age or other factors were not capable of working in more demanding positions ... These workers will not be discarded when they lose their skills through infirmity. This fits in with the concern that the company feels for such people and with the humanitarian approach that it behoves us to adopt' (1906, pp. 9–10). During 1914–8 and up until the contract of 1921, the annual reports included references to actions to enhance the welfare of the workforce: 'the board was much preoccupied by the rising cost of living, an inevitable consequence of the war' (1917, p. 8).

A close link between the politico-economic context and information aimed at workers (1923–45)

During the period of economic and political stability under Primo de Rivera's dictatorship (1923–31), the reports featured more information about staff matters. In particular, we found references to the company's intention to provide the best working environment, in terms of comfort and hygiene, 'at least equal and sometimes superior to that of any other industry' (1923–4, pp. 13–4); to electrification of all the factories, which, it was argued, would contribute to these improvements; to additional medical services: 'the board has the utmost consideration for its employees and is concerned to provide whatever may be of benefit to them. Thus, for example, CAT was keen to promote membership to a

health scheme among Madrid operators ... which provides its members with excellent care and is considering setting up a medical and surgical sanatorium' (1924–5, pp. 20–1); to paid holidays: 'permission to the factory manager to give workers up to fifteen days off on full salary, as long as they have discharged their duties satisfactorily' (1930, p. 17); and to uniforms for staff: 'manual staff in workshops are issued with overalls and workers with boiler suits' (1930, p. 17).

In the 1930s, the political and social situation of Spain worsened and in 1936 the Civil War broke out. As we explained above, the annual reports became brief and inaccurate. One report, including two notes, was published for 1936–9 claimed that 'The company, always eager to observe the directives put out by the authorities, scrupulously respected the norms drawn up for the employment of the war-wounded, ex-combatants and other groups rightly given priority ... this being at the initiative of the company even before it became a legal requirement' (1936–9, pp. 26–7), and recognized workers who supported the (winning) nationalist side: 'it is only right to make mention of the zeal and self-sacrifice with which a very small number of fervent and enthusiastic employees worked on in the liberated zone, in close collaboration with valiant representatives of the state' (1936–9, pp. 34–5). What all this actually meant was an increased rate of production, a greater number of shifts, the lengthening of the working day from eight hours to twelve, irregular opening hours in the supply workshops and the workers' savings banks and the suspension of all union activity (Comín and Martín, 1999).

The 1940 report did dedicate a section to staff, reporting improvements in workers' conditions as follows: 'every attempt has been made to respond to worthy initiatives of social policy, so important for the new government, paying attention also to the problems caused by limited production, without disadvantaging those who had served the company over a lifetime' (1940, p. 21). An *Economato* (a co-operative shop) was set up in 1942: 'it was deemed possible to create a store in the central offices, and this has proved successful and most beneficial in providing goods to the workers' (1942, p. 23). Thenceforth, up until 1986, there would be a section in the reports providing information about this initiative: 'the practice was extended, with notable and tangible advantages for the user, since the products are sold at cost wholesale price, and the difference between cost and retail price is charged to the company' (1943, p. 19).

The after-war period: a break in accounting information (1945–57)

Strikingly, the first Tabacalera annual report addressed workers in three chapters: 'personnel', 'co-operative store' and 'social security funds'. In concordance with the general policy of Franco's regime towards the working class, though, the reports from 1947 to 1956 included little or no information about industrial relations and welfare. At most, the annual reports contained broad, generic statements such as 'The board is pleased to note its satisfaction at the efficient performance of staff at all levels, whether technical, administrative, auxiliary staff or workers' (1948, no page numbers). After 1957,

however, when the Spanish economy started booming⁶, the annual reports paid more attention to personnel.

Economic growth and social concerns (1958–86)

In 1957 Spain began to move away from autarchy. Tabacalera's 1957 report stated: 'the company has always striven to respond to the willing contribution made by its staff by adopting any measures aiming to improve the financial and working conditions of its employees ... this resulted in additional one-off payments, perks and other advantageous measures' (1957, no page numbers).

In the late fifties, Tabacalera created a new personnel department that implemented a household building programme for staff. The programme consisted of 746 dwellings under construction as well as an investment worth 4,965,968.38 pesetas; loans for staff willing to build their own houses were also provided. Furthermore, the firm's factories were equipped with state-of-the-art medical consulting rooms. At the same time, Tabacalera set up a pension fund system for employees 'to cover needs of those widowed or orphaned' (1957, no page numbers). The annual statements also reported on the firm's efforts to enhance its staff profile through training programmes: 'conscious of the need to provide training in professional and social matters for its employees and workers, the company has contributed to a short course aimed mainly at Tabacalera staff, in the training school of the Ministry of Labour' (1957, no page numbers).

Beginning in 1961 educational and cultural activities were highlighted (works outings, libraries, etc.). In 1963, the company funded organised holidays at summer resorts for its staff as well as the creation of sports teams. In compliance with Law 41/1962 Tabacalera appointed two employees as board members 'according to the terms laid down by the company's own panel' (1965, p. 11), one from the administrative and engineering sections and one from the shop floor. Furthermore, 'the board set up a scholarship programme for employees' children as well as for staff members willing to enhance their education' (1966, p. 11). Table 2 shows the growing concern for workers' welfare, with the increasing budget for study grants, subsidies to employees' groups, and disability support. After 1970, sections of the annual reports devoted to personnel contained photographs of the shop floor (1970, p. 15), office workers (1974, p. 43), on-site medical facilities (1975, p. 65), sporting activities (1976, p. 64) or training courses (1980, p. 70).

Professional training constituted an area of concern for Tabacalera: 'the success of the initiatives ... is accurately reflected by the low level of absenteeism ... training programmes for management reached 10,232 hours' (1977, p. 64). This training sometimes took the form of collaboration with organisations 'such as the Chamber of Commerce, the Spanish Centre for Training Directors, the Association for Senior Management Training, the Centre

⁶ The Stabilization Plan set the stage for the period of rapid economic growth known as the Spanish economic miracle. From 1960 until 1974 Spain's economy grew an average of 6.6 percent per year, more quickly than that of any country in the world except Japan (Encyclopaedia Britannica, 2008).

for Commercial Studies, the Polytechnic University of Madrid, the *Complutense* University of Madrid and the Graduate Centre for Business Studies' (1979, p. 66). Otherwise, in-company training programmes focused on handling high-tech machinery, marketing techniques, quality control, and health and safety issues. During the 1980s Tabacalera paid particular attention to the latter: 'the company's interest in promoting preventative medical services and regular check-ups for workers led Tabacalera to acquire a Mobile Check-up Unit with the aim of providing this service with the most advanced means' (1980, p. 74). As the 1981 annual report (p. 71) noted, 'Over the last few years Tabacalera has been drawing up a model of industrial relations which is based on openness and transparency of information, relying in large measure on participation and dialogue.' On the eve of Spain's entry in the EEC, Tabacalera enhanced its reporting to employees: 'In 1985, the need to keep up a continual flow of information for our workers has increased as a result of the important institutional changes that have followed our entry into the EEC, and there is no doubt that the fact that these channels of communication were already well established ... contributed in no small measure to creating a positive attitude towards the significant transformation that the company is undergoing' (1985, p. 78). In addition to information published in the annual statements, regular meetings were held between workers' representatives and the management to address quotas for representation established in recent trade union legislation (Freedom of the Unions Organic Law 11/1985) and to discuss payment and working conditions.

Table 2 to appear about here

The society

CAT reported some information targeting the general public in the 1920s, but such information did not become plentiful until the 1960s and through the end of our observation period.

Social and cultural initiatives before 1975

In 1927, the annual report showed that CAT had contributed to the building of the university campus in Madrid. Furthermore, on the land of the Tarragona factory CAT had built 'a small building to house and put under state protection the highly interesting archaeological finds from the Roman necropolis which was discovered while excavations were underway for the foundations of a factory' (1929, p. 17). The company also participated in a number of cultural events of this period, such as the International Exhibition in Barcelona (1929–30) and the Latin American Exhibition held in Seville (1929). At this latter event CAT was awarded an important prize for its exhibition centre: 'It is gratifying to record in these lines that ... the work of the monopoly was on show, and that the company was awarded a first prize for a display of machinery ... so that the public could see the high standard of manufacturing that has been reached' (1930, p. 18).

From the late 1920s through the early 1960s, the annual reports did not mention any relevant social initiative. In 1964, Tabacalera reported an agreement with its

French counterpart to allow Spanish tobacco to be sold to Spanish immigrants to that country (1964, p. 9). From the 1971 contract on, Tabacalera's annual reports echoed some of the developments that took place in the wider environments of the firm; the increasing internationalization of Spanish society generated a steady demand for American blend cigarettes and filter cigarettes, as well as growing numbers of female consumers of tobacco products. In 1972, the firm set up a 'research group that should give [the company] a complete picture of the habits, opinions and attitudes of their current and potential customers A first study which laid the groundwork, and was then complemented by others, constituted the first real attempt made by the company to gain an accurate picture of its market. The research consisted of a survey, conducted through individual interviews with a sample of 9,027 people' (1972, p. 67). The results showed that 48% of the population were regular smokers, 46% non-smokers, 3% former smokers and 3% occasional smokers. The annual reports also showed that the most popular product was the cigarette, and that 'the average frequency for our group of smokers is almost one packet a day. However, one in five smokers consumes more than twenty-five cigarettes a day and 3% more than two packets. This range in the habits of Spanish smokers was the motivation for one of Tabacalera's most striking initiatives, its campaign to encourage moderation in smoking' (1972, p. 68). Additionally, the company sponsored research in cooperation with Spanish universities to develop healthier products (1972, pp. 78–9).

Social concerns: sport, health and culture (1975–86)

Promotional activities with a social impact—especially, sport tournaments (e.g., sailing, motocross, motoring, cycling, tennis and golf)--were grouped into a section of the annual reports beginning in 1975. In 1975, the annual report noted, 'In March-August the company sponsored the Fortuna I and II trophies, in collaboration with the Spanish Sailing Federation, which were used as a basis for the selection of the Spanish team that would eventually compete in the Admiral's Cup. ... The Spanish Sailing Federation awarded Tabacalera the gold medal and the golden anchor in gratitude to the company's contribution to the promotion of sailing. The first motocross trophy *Sombra* was also sponsored by Tabacalera' (1975, p. 45). In a related vein, the annual statements contained a new section on 'Social activities', which showed social dinners, with awards ceremonies for women workers and their children.

In 1979, the Letter from the Chairman referred to social issues as follows: 'Tabacalera, conscious of the need for full, clear and accurate information, prepared this report with a two-fold objective: as information supplied to those sharing and working in the company, on the one hand; and, on the other, as evidence of the company's involvement with society' (1979, p. 5). According to the chairman, the company strove to fulfil both objectives in a highly responsible manner. From that year on, Tabacalera consistently received awards in recognition of its social involvement: 'During 1979 Tabacalera was awarded the following: the prize for the best report of 1979, given by the Official Chamber of Commerce, Industry and Navigation of Barcelona; the *Ducados Internacional* Prize, for one of the one hundred best ideas of 1979, given by *Actualidad* magazine; a prize for one of the best twenty publications of 1979, given by

Actualidad magazine; runner-up for the best external advertising, awarded for *Farias Nº 1'* (1979, p. 51).

In the 1980s, the annual reports reflected the firm's growing concern over health problems. In this respect, the company cooperated with the health authorities in the drawing up of a special project regulating the manufacturing, circulation and commercialisation of tobacco and its by-products. As a consequence, a system of strict quality control of the firm's products was put in place. Furthermore, the firm developed low-nicotine tobacco.

During the period 1984 to 1986, the firm pursued an increasing role in cultural activities: 'Over its 350 years of history, the tobacco monopoly has built up an important cultural legacy. In accordance with its state-owned character, it is the aim of the firm to make this cultural legacy available for the citizens to see' (1984, p. 44). The following programmes had a remarkable social impact: the Historical Archive of the Tobacco Factory in Seville was opened to the public; the exhibition 'Seville and Tobacco' was sponsored by Tabacalera in cooperation with the Andalusian government and the University of Seville; and in 1984, the firm published a book on the history of tobacco (Rodríguez Gordillo, 1984). Tabacalera aimed to contribute to culture and society by organising conferences and exhibitions, and it established cultural contacts with other institutions in order to organise various activities and courses, like the two 'organised in collaboration with the Menendez Pelayo International University' (1985, p. 56). The study of the history of the tobacco business was also promoted through research scholarship programmes.

DISCUSSION

Investigations adopting a stakeholder perspective on financial reporting have overwhelmingly focused on corporate social responsibility. Despite this wealth of research, we still have much to learn about the determinants of stakeholder reporting, that is, why firms accommodate their reporting policies to stakeholders' demands. To address this issue, we examine the annual reports of a Spanish firm over a hundred years (1887-1986). During our observation period, the wider context of our focal organization witnessed significant economic, social and political changes that affected the demands of main stakeholders. We analysed how the financial statements evolved over a hundred years to highlight the changing organizational responses to three main stakeholders: the State, the workers and the society.

Our focal firm was a state-controlled enterprise. Therefore, its annual reports targeted the state as a main stakeholder. As Anisette and Macías (2002) noted, the firm consistently used the annual reports both to ensure that the state was cognizant of the situation of the tobacco monopoly and to make clear to the public its own subordinated role.

However, continuity changed under changing circumstances. In 1893–4, the firm sharpened the contents of its financial information after overcoming a period of losses; this suggests that detailed reporting was required in periods of

financial constraints. In 1923, the firm significantly increased its revenues and for the first time provided comparative data with previous years. The traditional format of the annual reports changed substantially in 1945. Once the firm was put on a more commercial footing, and after it became a limited liability company, the tobacco monopoly provided a summary of its management accounting, with a breakdown of costs. In this context, the balance sheets reported cost-price figures, and qualitative information summarized the firm's strategic plan. Significant changes also occurred after the 1971 contract, with extended and new information (e.g., 'Letter from the Chairman').

The crucial role of the state made Tabacalera's reporting a non-risk exercise (Jawahar and McLaughlin, 2001). The monopoly was a gift of the state, and CAT's overwhelming interest lay in retaining the lease. In periods when CAT's strategy was *proactive*, because of the short length of the contracts, information became plentiful, especially before and after the signing of these contracts. Conversely, Tabacalera held long-term contracts, and its strategy was *accommodative*. In general, these findings are consistent with Sengupta's (1998, p. 460) suggestion that 'disclosures are more important for firms that face large uncertainty'. More specifically, our findings provide support for Macías's (2002a) finding that corporate reporting was strongly influenced by the lease contract conditions.

The annual reports also contained social and political information for workers. In the late nineteenth century and the period 1917–21 they provided thorough information about industrial conflicts. As we noted above, a substantial portion of qualitative information publicized initiatives such as cooperatives in 1940, cultural activities from 1960 on, and professional training after 1975. On several occasions, political upheavals interrupted the flow of information oriented toward employees, such as during the Spanish Civil War (1936–9) and at the height of Spain's isolation (1947–56).

Workers were crucial for the tobacco business; hence, with the exception of the periods of industrial dispute and political instability, the firm deployed a risk-averse strategy (Jawahar and McLaughlin, 2001). The tobacco monopoly echoed operators' concerns and increased reporting accordingly. In the 1880s, operators were actually civil servants. Up to 1895 the firm's strategy towards this group was *accommodative*. Once the financial conditions of the firm improved, for most of the period the firm's strategy became *proactive* and working conditions became significantly better than in other industries. As Rey Reguillo notes (1998, p. 37), the firm was 'far ahead of other industries and sectors of production, in everything that had to do with welfare and health and safety in the workplace ... almost no one, neither workers nor their families, was left to fend for themselves if disaster struck them ... Tabacalera was a model firm and in the vanguard of modernisation and concessions to workers both throughout the dictatorship and since'.

CAT and Tabacalera also forwarded information to society at large, a moral stakeholder. In the 1920s and 1970s, periods of economic growth and business expansion, the firm had disposable resources for activities beyond tobacco production and distribution, and its annual reports published information about

its cultural initiatives to render these activities visible to society. In the 1970s, with the modernisation of Spain, as concern rose about the harmful effects of tobacco, Tabacalera sponsored sporting activities. The 1983 report pointed out, 'Tabacalera's concerns with problems relating to tobacco and health can be clearly seen in the company's collaboration with the Health Authorities in drawing up the proposals for regulating the manufacture, marketing and sale of tobacco and tobacco products, and in the constant strengthening and improvement of our internal quality control systems' (1983, p. 72).

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TABLE 1: Chronology of Spanish politics during the period under study (1885–1986)

Restoration of the Monarchy	1874–1923	<ul style="list-style-type: none"> - Power returns to the king and the Cortes (parliament) - Spain loses its overseas colonies (1898) - World War One – the expected growth in Spain's economy does not take place - Political crisis (1917–1923), linked to a serious economic crisis and social unrest
Dictatorship of Primo de Rivera	1923–1931	<ul style="list-style-type: none"> - Founding of the big Spanish monopolies (communications, petrol) - Significant development of the economy and the infrastructure
Second Republic	1931–1936	<ul style="list-style-type: none"> - Difficult socio-economic situation - Political divisions increase
Civil War	1936–1939	<ul style="list-style-type: none"> - The country is divided and devastated
The Postwar period (i)	1939–50s	<ul style="list-style-type: none"> - Country in ruins: scarcity and a black market - World War Two - Spain is isolated
The Postwar period (ii)	50s–1975	<ul style="list-style-type: none"> - Spain joins the OECD and the IMF - Stabilisation Plan 1959 - The economy expands in the 60s, up until the energy crisis of the early 70s
Return to a democratic regime	1975–	<ul style="list-style-type: none"> - Programme of legislative reform - Plans for stabilising the economy - A liberal constitution is introduced (1978) - Spain enters NATO (1982) and the EEC (1985)

TABLE 2: Grants given to the Joint Committee for Education and Social Welfare (in pesetas)

AREAS	1973	1982	Increase % (in constant pesetas)
Study grants	22,620,689.00	137,928,828	95.31
Company worker association	1,869,882.00	12,000,000	105.56
Support for the disabled	999,000.00	22,393,783	618.01
Support for widows and workers' families	438,532.80	5,063,108	269.81
Various	1,537,715.15	2,510,860	-47.70
TOTAL GRANTS	27,464,818.95	179,896,579	109.80
Total sales	802,179,099.00	3,463,286,597	38.29
Relation between total grants and total sales	3.42 %	5.19 %	

Source: Adapted from the financial reports (1973; 1974; 1982)