

DOES STEWARDSHIP STILL HAVE A ROLE?

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Abstract: The paper analyzes the decision of FASB and IASB not to treat the motivational and control aspects of stewardship as a separate and distinct reporting objective to that of facilitating investment decisions. It does so firstly by considering the demand for information to control agents; and secondly by assessing the capacity of decision-useful information to replicate stewardship effects. The paper finds an essence to accounting based on the legal protection of property rights, encompassing stewardship, which has remained constant since earliest times. The decision taken by the boards on stewardship also appears disconnected from changes in the capital markets as well as the writings on reporting objectives that preceded it.

INTRODUCTION

The paper focuses on the decisions of FASB and IASB to adopt the provision of decision-useful information to investors as the sole objective of financial reporting in their respective conceptual frameworks (CF); stewardship information being seen as valuable only in so far as it contributes to this overall aim. This view was articulated by the two boards in FASB Concepts Statement No. 8 (CS#8), also known as Chapters 1 and 3 of the IASB's Conceptual Framework. CS#8 still stands in the U.S. and there are currently no plans to revise it. IASB, for its part, is pressing ahead with a revised CF, but still sees stewardship as part of the decision-usefulness role rather than as separate and distinct [IASB, 2015a, 1.2; 2015b, BC1.9]. Hence, the issue which the paper investigates is whether the stance of the two boards on stewardship is tenable from an historical perspective.² In so doing, it clarifies

¹ We would like to express our thanks to two anonymous referees for their extensive comments, which significantly improved the paper.

² How this situation came about despite voluminous protests from stakeholders is considered in Zeff [2013] and Pelger [2016]. See also Young [2006]. Arguably, it is an example of the type of unscientific behaviour described by Basu [2015]. One of the criticisms is that the boards are assuming a one-to-one correspondence between the economic substance of an event and its reporting, without considering the incentive effects produced when managers have access to the information reported in the accounts [Christensen, 1981; Gao, 2013].

exactly what type of information has been overlooked by the boards in their downgrading of *stewardship*, which was a cause of confusion in the discussions leading to CS#8 [Pelger, 2016]. The findings challenge Miller and Napier's [1993] assertion that there is no essence to accounting. Instead, the paper argues in favor of a legal essence based on proving property rights and obligations incorporating stewardship, the demand for which has remained constant since earliest times.

An interesting point is that by subsuming stewardship within the single objective of providing forward-looking information to facilitate investment decisions, the two boards are out of step with the economic theory of accounting concerning the value of information. According to this theory, there are two main characteristics of financial accounting information, the one relating to informing decisions and the other to controlling agents. The boards consider only the decision-usefulness role as valuable. The other characteristic, which involves controlling and motivating agents through legally binding reporting arrangements, is the aspect of stewardship ignored by the boards despite its being arguably one of financial accounting's main functions. Hence, notwithstanding Merino's observation that "mainstream accounting research often focuses on economic models in which assumptions bear no reflection to existing conditions," [Lazdowski, 2015, p. 7], in this instance, the evidence from accounting history and mainstream accounting theory are consistent with each other.

Notable recent historical contributions relating to the CF include Williams [2003], who traces the acceptance of the definition of assets as future economic benefits, which she argues has resulted in a loss of practical relevance;³ and Basu and Waymire [2010], who identify flaws in the arguments of Robert Sprouse in the 1960s that helped steer FASB towards its present balance sheet view of income measurement.

³ The definition of assets adopted in the joint CF of FASB/IASB [2010, 4.4] is now "...a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."

Bryer [2013] regards the balance sheet approach as “pathological” because it views income as a product of the underlying value of the net assets rather than the costs expended in production. Tracing the idea back through a succession of accounting theorists to the seminal work of Irving Fisher at the turn of the 20th century, he contends that Fisher’s main motivation for adopting a balance sheet perspective was ideological rather than theoretical; i.e. to disprove the validity of Marx’s labor theory of value that was gaining credence in U.S. intellectual circles at this time.

Zeff [2013] provides a detailed historical analysis of the antecedents of the present CF, including the evolution of the concepts of stewardship, conservatism and prudence. Zimmerman [2015] agrees with Zeff that “stewardship as a consequential factor seems to have receded into the background” [Zeff, 2013, p. 313], dating the start of the change to the 1930s when markets in the U.S. were first regulated. He contends that from that point on, “the role of financial accounting shifted away from its stewardship roots and toward providing these public markets with information for valuation” [Zimmerman, 2015, p. 487]. However, Zimmerman [2015] also argues the converse is true of the present, predicting a greater demand for stewardship information in the 21st century in order to resolve the additional conflicts of interest resulting from the large rise in private equity and venture capital financing in the modern, knowledge-based economy.

For Macve [2014, p. 11], accounting practice is based on conventions that “evolved at different times and places for different reasons.” Accordingly, the central question that policy-makers should be addressing is how appropriate time-honored conventions are to the modern business world, rather than over-arching concepts as reflected in the CF [see also Bromwich et al., 2010]. In order to achieve this aim, one would first need to understand the circumstances surrounding the origins of the practices that through time became conventional and then to consider how those circumstances have changed, thus elevating the importance of

accounting history. Macve [2015, pp. 124, 138] illustrates this argument further in a wide-ranging study from ancient to modern times exposing the notion of objectivity in accounting and auditing as “twin rational myths.” Basu [2015, p. 1] similarly argues in favor of the “scientific laws” that are embedded through “evolved accounting practice” over the “unscientific ideology” of much of “recent accounting research, regulation and teaching.”

FASB stands accused by Markarian [2014] of ignoring the debates of the early 20th century on valuation in their pursuit of fair values and downgrading of “reliability.”⁴ Finally, Nurnberg [2015] provides a “market for excuses” explanation along the lines of Watts and Zimmerman [1979] for the narrowing of perceptions by U.S. standard setters over the last 45 years in relation to the primary users and basic objectives served by financial reporting. Essentially, he sees the narrowing of scope of the present CS#8 as working in favor of the preparers, auditors and regulators because it reduces the number of areas they can be held accountable for by “investors, creditors, other stakeholders, and society as a whole,” hence allowing management greater freedom of action [p. 77].

The main contribution of the present study to the CF debate is that it examines the historical demand for accounting information and the uses to which it has been put prior to the advent of mandatory reporting. Thus, the study eliminates regulatory compliance as an explanatory factor, a tactic employed by Benston [1969, 1973], Chow [1982], Sivakumar and Waymire [1993, 1994, 2003], Ely and Waymire [1999a, 1999b] and Barton and Waymire [2004]. Accounting history’s potential in this regard was recognized by Napier [1989], but generally it has not been fulfilled in debates over contemporary practice.⁵

The paper does not consider the development of government accounting which is outside the remit of CS#8. While there is considerable overlap between this topic and some of

⁴ See also Erb and Pelger [2015] for a similar view, tracing the evolution of “reliability” in the CFs and how the term has been redefined in order to take financial reporting further in the direction of fair values.

⁵ Historical studies are conspicuous by their absence from the comprehensive literature review undertaken by the European Financial Reporting Advisory Group [2013] of the use of information by capital providers.

the procedures we discuss – the influence of estate practice on the development of medieval Exchequer accounting is an example [Jones, 2009] – the notion of stewardship in government is also conflated with issues of political power that do not apply to general purpose financial reporting, such as the protection of constitutional liberties through financial controls [Funnell, 2007, 2008].

The paper proceeds by briefly clarifying the aspect of stewardship omitted from CS#8. The economic theory is useful because it provides a well-developed framework for explaining the differences. The paper then turns its attention to the demand for stewardship information to motivate and control agents in the pre-regulation period. How capable decision-useful information has proved in also performing a stewardship role is then discussed. Finally, the paper considers the general applicability of its findings to the modern era.

MOTIVATIONAL AND CONTROL CHARACTERISTICS OF STEWARDSHIP INFORMATION

One of the most controversial aspects of CS#8 is the subsuming of stewardship within the single objective of providing forward-looking financial reporting information to facilitate investment decision-making [FASB, 2010, BC1.24-28]. Proponents of stewardship as a distinct objective of financial reporting failed to convince FASB members in particular that a stewardship perspective would make any difference in practice [Pelger, 2016]. Part of the difficulty revolved around the lack of a standard definition of the term and the fact that stewardship information can indeed be useful to investors in assessing future cash flows [ibid, p. 61]. Hence, Zeff [2013, p. 313] is inclined to agree with the boards “that stewardship

should be folded into the overall decision-usefulness objective” if one interprets stewardship as “an indicator of management effectiveness in generating a return to shareholders.”

Yet recognition of this overlap does not mean that stewardship information cannot be distinguished from decision-useful information. What is missing from the boards’ interpretation of *stewardship* are the motivational and control aspects of stewardship information – i.e. information for influencing agents to act in accordance with the principal’s wishes as opposed to information for facilitating investment decisions – and it is this omission which is the focus of the current study.

There can be little doubt that these two types of accounting information are conceptually distinct, given that they perform different roles.⁶ Stewardship information is used to control the activities of agents when the interests of a principal and agent are in conflict and there is uncertainty about how the agent will act. Information is then used to align those interests through the provision of incentives based on outcome data [Christensen and Feltham, 2008].⁷ By way of contrast, the decision-usefulness role exists to help investors take better decisions in the presence of uncertainty about future outcomes.

Furthermore, the determinants of the value of information in the two cases are different. For information to be decision-useful, important determinants are relevance and timing, and verifiability contributes to value; but for stewardship information, decision-relevance and timing are less important, and verifiability assumes a greater significance [Ijiri, 1971; Gjesdal, 1981]. Relevance means the potential of information to alter a decision, which is clearly necessary for the information to be useful to investors. Timeliness is also key, as information loses its potency to affect decisions if it is received too late. But as far as the stewardship role is concerned, information can be produced retrospectively without it losing

⁶ See Feltham [1972], Demski [1980], Strong and Walker [1989], Laffont and Martimort [2002], Christensen and Demski [2003], Christensen and Feltham [2003], and Christensen and Feltham [2008] for elaboration on the two types of accounting information.

⁷ Ijiri [1983] and Ball [1989] presented a similar analysis in the development of alternative conceptual frameworks.

its incentive effects. In this situation, managers act appropriately, not because they have more timely or relevant information, but because they are motivated by the prospect of future performance evaluation. Verifiability, on the other hand, is of primary importance to stewardship in the design of agent rewards. Without verifiability, a contract becomes unenforceable in the courts, thus lessening the incentive properties of the information produced [Arrow 1983; Laffont and Martimort 2002, Ch. 6]. For these reasons, information that is valuable for investment decisions will not necessarily be valuable for stewardship purposes, and vice versa.

The question addressed in the remainder of the paper is whether these conceptual distinctions matter in practice, focusing next on the historical demand for stewardship information to control agents.

HISTORICAL DEMAND FOR STEWARDSHIP INFORMATION

If FASB's and IASB's stance regarding the objectives of financial reporting can be challenged on conceptual grounds, the boards' position might nonetheless remain tenable if there was little demand from capital providers, the class of accounts-users the boards prioritize, for stewardship information to control agents. However, this is not the case.

Arguably, the demand for stewardship information to deter agents from undesirable behavior is self-evident given the contemporary international focus on corporate governance arrangements and the frequency of accounting scandals [Clarke et al., 2003; Lee, 2006]. There is also an abundance of academic research attesting to the demand for information to control agents in the present-day [e.g. Watts, 1977; Healy, 1985; Lambert, 1984; Lambert and Larcker, 1985; Dye, 1988; Watts and Zimmerman 1978, 1990].

But, it is to history that one must turn to appreciate the significance and longevity of the demand for stewardship information. In this regard, the study of *origins* is particularly illuminating, as the circumstances surrounding the origins of a practice can reveal something about its intrinsic nature. This view runs contrary to Miller and Napier's [1993] Foucauldian, genealogical perspective that rejects universal historical truths and emphasizes the historical contingency of events. However, some transcendent historical truths are not in question, such as competition between humans for resources, the existence of differential property rights in most societies, and the imperative of individuals and organizations to protect their interests,⁸ which the paper argues lies at the root of the demand by business owners for stewardship information to incentivize agents and hold them to account for their utilization of the owners' resources.

Moreover, the historical evidence is valuable because it covers the period prior to mandatory reporting. Therefore, regulatory pressure is not a factor when attempting to infer the nature of user-demand from observed reporting practices. Evidence from early agency contexts reveals concerns about conflicts of interest between principals and agents, asymmetric information, and the importance of using verifiable information to assess how well agents had performed their obligations, if necessary tested in the courts. All of these are features of the demand for stewardship information to control the behavior of managers.

The association between accounting and the protection/enforcement of property entitlements and obligations has been a perennial feature of most societies since the first cultivation of crops and the domestication of livestock in the Middle East c.8000-3000BC. One of the principal features of settled agricultural society compared to bands of hunter-gatherers is the existence of property in the form of land and surplus. This has various ramifications, including differential levels of ownership and reckoning technologies to track

⁸ See Brown [1991] for an anthropological reflection on "human universals." Interestingly, he sees biology rather than culture as the main determinant of human universals, and in particular the evolution of the human mind [p. 6].

economic exchanges and enforce obligations [Oldroyd and Miller, 2011]. Throughout history accounting has performed this vital role, without which trading could not have taken place.⁹

The concentration of investment and the sharing of risks through the creation of joint-stock companies in the 16th and 17th centuries is a case in point. It was accountability systems that made this new form of business organization possible by reducing the risk of entrusting funds to third-party agents whose actions could not be directly observed, as well as ensuring that investors received the dues to which they were entitled [Oldroyd and Miller, 2011]. The earliest example in the English-speaking world is the *Company of Merchant Adventurers of England for the Discovery of Lands Unknown* (later known as the *Russia Company*), which was formed in 1552 to discover a northerly trading route to China. The formation of a joint-stock company, with each subscriber contributing £25 (equivalent to about \$12,000 today in purchasing power), enabled this high-risk venture to proceed [Hakluyt, 1927, pp. 241-267, 319]. The company failed in its original objective, but nonetheless succeeded in establishing trading links with Russia. Although accounts have not survived, the first set was prepared in 1567 for the preceding fifteen years for the express purpose of paying the shareholders their dues in dividends [Willan, 1956].

Investors in the Dutch East-India Company in the period 1602-1623 required a form of accounting that would deter agents from acting dishonestly. Interestingly, there was no demand from investors for the provision of profit measurements from the Company, which was the largest capitalist enterprise at the time. Investors could calculate their own returns based on the cash subscriptions and disbursements, but sought “a proper accounting in the manner of a steward” from the directors, whom they suspected were “guilty of maladministration, fraud, and unethical practices” [Robertson and Funnell, 2012].

⁹ Corroborating evidence that recordkeeping promotes exchanges was obtained via a repeated trust game experiment [Basu, Dickhaut, Hecht, Towry and Waymire, 2009].

From earliest times, the main rationale for accounting has been to facilitate trade and investment through this ability to attest property rights and obligations. Studies by accounting historians confirm that in general this state of affairs has remained constant.¹⁰ Mercantile accounting, medieval manors, and Victorian landed estates are but three examples [e.g. Ramsey, 1956; Napier, 1991; Harvey, 1994]. Without accounting systems that are capable of tracking transactions and enforcing rights and obligations, trade would be impracticable except on the smallest scale. Put the other way-round, for accounting to fulfil its role of protecting property, it must be capable of reporting events at a distance, both physical and temporal.

This facet of financial accounting practice has been evident since its origins in prehistory. According to Schmandt-Besserat [1992, p. 160], the earliest notational inscriptions on antler bones represented a cognitive leap for mankind precisely because they enabled “concrete information” to be translated into “abstract markings”, and “knowledge” to be separated from the “knower.” The first unequivocal accounting records – a system of clay tokens in ancient Mesopotamia predating the invention of writing by several thousand years – are therefore significant because they allowed economic events to be communicated at a distance apart from by word of mouth.

Basu and Waymire [2006] see the discovery of recordkeeping as an extension of the process of human evolution because it “expanded memory capacity far beyond the biological constraints of the human brain” [p. 204], and allowed “complex cooperative arrangements” to develop [p. 203].¹¹ This was not just a one-stage process, but a reciprocal one in which “formal recordkeeping, language, law, and other exchange-supporting institutions co-evolve

¹⁰ This is not simply a western phenomenon. Peng and Brown [2015] contrasted the broader focus of traditional Chinese reporting models with that of western practice in the Qīng Dynasty, but tracking property rights and obligations was nonetheless central to the Chinese model [p. 4].

¹¹ See also Waymire and Basu [2007, p. 95]. Basu, Kirk, and Waymire [2009] tested the association between the incidence of recordkeeping and the size and complexity of societies from an anthropological database. They found that the likelihood of recordkeeping increases for large groups and that it precedes the appearance of administrative and legal institutions.

and *feed back* to facilitate even more complex forms of exchange” [p. 212]. Ezzamel and Hoskin [2002, p. 360] likewise theorize the emergence of accounting, writing and money in the ancient world as a process of change, creating concepts such as “transaction”, “equivalence” and “value reciprocity” which previously had no meaning.

Distance from events, or more precisely asymmetric information, has continued to influence the development of accounting ever since. For example, the rationale for the charge and discharge system on medieval estates was the problem of managing geographically dispersed operations, given that secular lords or monasteries commonly owned estates in different regions or even countries, and that individual estates were themselves composed of different units of production [Harvey 1994; Dobie, 2008].

Merchants trading overseas encountered similar difficulties in controlling their operations at a distance. According to Hooper [1995], the diversification of English merchants into overseas markets in the second half of the 15th century explains why they switched from oral to written accountability; while in Italy, firms of merchants and bankers relied on accounts to control their Europe-wide networks of branches [Lee, 1977; Carruthers and Espeland, 1991].

The internationalization of English trade continued apace in the 16th century, widening the network of agents and factors, and increasing the need for accounts for purposes of control. It was for this reason that letters and abstracts sent by post became vital to merchants because they provided a more flexible and timely information source for control over wider distances than the account-books [Yamey et al. 1963, pp. 21, 25, 44, 48, 97; Oldroyd, 1998].

Both stewardship accounting and record-keeping are premised on the need for owners to protect their property entitlements at a distance.¹² In the case of stewardship accounting, it becomes necessary to utilize intermediaries to act on the owners' behalf either because they are unwilling or unable to look after their own affairs, or because the scale and complexity of the operations renders direct supervision by the owners impracticable. Stewardship accounting supplements recordkeeping in deterring inappropriate managerial behavior, but the prime motivation of safeguarding the owners' property is the same. Hence, auditors who report to the shareholders on the overall view shown by the accounts are also obliged to check that the accounts are in agreement with the underlying accounting records.

18th century landed estates in the north-east of England provide a good illustration of these two complementary aspects of financial accounting. The region was the first in Britain to industrialize on a significant scale, fed primarily by an increase in demand for coal in London and the south-east of England. Landowners like the Bowes in County Durham stood at the forefront of industrial expansion. Various modes of organizational control were employed in the estates including partnerships, external and internal subcontractors, leasing arrangements, and direct management. Local supply networks were created for tools, machinery, horses, wagonway-construction and track maintenance. Estate stewards oversaw the operations that were spread over wide areas. However, there was a commonality between the performance evaluation of stewards and the recording of transactions in the sense that all the activities were underlain by detailed accounting evidence channeled through the one estate office, including returns by the stewards supported by vouchers. In this way, the two chief stewards, who were in turn accountable to the proprietor, were able to ensure that the subsidiary stewards had acted honestly and diligently, that third-parties had fulfilled their

¹² Waymire [2009] argues that a still more fundamental demand exists for “exchange guidance” than either stewardship or valuation information will provide, such as at the point of origin of a firm when information is needed to find markets, secure supplies and get businesses up and running.

contractual obligations, and that in all cases, the proprietor had received his proper dues [Oldroyd, 2007, Ch. 2, 3].

The protection and enforcement of property entitlements and obligations is so elemental to the structure of capitalist society that Funnell [2001] equates it to the concept of “justice”.¹³ Hence, William Blackstone, the foremost commentator on English common law in the 18th century, whose *Commentaries on the Laws of England* (1765-1769) played a key role in the drafting of the American Constitution, saw the preservation of property as the ultimate end of justice [Oldroyd, 2007, p. 68]. He maintained that “there is nothing which so generally strikes the imagination, and engages the affections of mankind, as the right of property” [Blackstone, 1826, p. 1]. Following John Locke, Blackstone believed that protection of property was the reason why humans had originally formed themselves into societies. This explained why the English legislature

had universally promoted the grand ends of civil society, the peace and security of individuals, by steadily pursuing that wise and orderly maxim, of assigning to everything capable of ownership a legal and determinate owner [ibid., p. 14].

For this reason, financial accounting is important not simply through its ability to track property rights, but because in theory it provides the necessary evidence to allow owners to enforce those rights in courts of law. In other words, financial accounting has proved useful historically because of its property of verifiability.

The use of accounts as legal evidence has been a continual feature of Western civilization since the ancient Greeks and Romans [Oldroyd and Dobie, 2009]. Basu and Waymire [2006] observe the same was true of ancient Mesopotamia, where legal systems co-evolved with recordkeeping to resolve *ex post* disputes.¹⁴ Likewise, the main purpose of the accounts of English merchants in the 16th and 17th centuries was to provide a complete

¹³ De Soto [2001] has argued that differences in property record systems explain why capitalism has succeeded in the West but not in underdeveloped countries.

¹⁴ The Babylonian Code of Hammurabi (c. 1750 BC) is an example.

record of their transactions, enforceable in law. The printed guidance available to them at the time echoed earlier Italian texts in asserting that the reasons for keeping accounts were to eliminate errors, prevent fraud, calculate the probate value of businesses, track personal accounts, inventory and partners' capital, and provide evidence in courts of law [Yamey et al. 1963; Carruthers and Espeland, 1991; Oldroyd 1998; Sangster, 2016; 2017].

This need for principals to protect their property entitlements at a distance explains the existence of legally enforceable control mechanisms to hold agents accountable. Effective control of agents cannot exist without accountability, and effective accountability is dependent on verifiable evidence that ultimately can be tested in court. A notable feature of the management of 18th century estates in the north-east of England, for example, was the legal underpinning of the business arrangements with written contracts supported by accounts to monitor compliance [Oldroyd, 2007, p. 81]. Company directors today have a legal obligation to provide the auditors and ultimately the courts with sufficient evidence relating to their company's activities.

The labor contract system established by the Freedmen's Bureau in the former Confederacy in wake of the American Civil War is an example where the relationship between verifiability and accountability broke down. The principal-agent relationship was complex in that the plantation owners were themselves acting as intermediaries on behalf of the U.S. government to provide their former slaves, now employees, with their lawful dues under their contracts. The basis for resolving disputes was accounting evidence heard before tribunals and local courts. However, the system proved untenable from the outset owing to the lack of audit of the employers' figures allied to a prejudiced and ineffectual judicial process, and was instrumental in the ex-slaves continued servitude [Fleischman et al., 2014].

In summary, the historical evidence from the pre-regulation period suggests that the demand for stewardship information to influence the behavior of agents by holding them to

account, which CS#8 ignores, is the product of financial accounting's three most elemental properties: property entitlements where there are potential conflicts of interest, controlling events at a distance or asymmetric information, and legal evidence or verifiability. Whilst not denying the possibility of change in other respects or the significance of contingent historical forces in shaping events, the perennial nature of these three elements belies Miller and Napier's [1993] assertion that there is no essence to accounting.

ABILITY OF DECISION-USEFUL INFORMATION TO REPLICATE STEWARDSHIP EFFECTS

The previous section considered the demand for stewardship information in isolation, but it may be possible for the same piece of information to produce overlapping decision-useful and stewardship effects. In that case, the standards boards might still be vindicated in excluding stewardship as an objective from the CF. It is therefore significant that contemporary and historical research has examined settings in which this condition appears to have been satisfied, and decision-useful information has played a stewardship role and vice versa.

A number of studies highlight the complementary effects of the two information types in the present-day,¹⁵ and the examples that follow show that the same is true historically. However, the argument that information intended primarily for informing decisions is capable of *fully* replicating stewardship effects and therefore acting as a substitute falls down historically for two main reasons: the first relating to the primacy of the demand for information to protect property rights and thereby hold agents to account identified in the

¹⁵ See, for example, Wolfson [1985]; Bushman et al. [2006]; Ball and Shivakumar [2008]; Banker et al. [2009]; Kothari et al [2010]; Peng [2011]; Heinle and Hofmann [2011], Drymiotes and Hemmer [2013].

previous section; and the second, to the need for such information to be capable of verification in order for it to be fully effective.

Taking the user-demand issue first, the historical preeminence of stewardship information means that where decision-useful information has been utilized for stewardship purposes in the past, this normally has occurred within a pre-established framework of accountability reporting as a supplement to the existing arrangements. It has therefore tended to provide an incremental contribution to accountability within the organization rather than acted as a substitute, as the two boards now envisage. For example, the regular practice of surveying estates' possessions, revenues and annual gross product from the medieval period onwards was useful for planning, whilst at the same time providing a benchmark against which the stewards' biannual returns could be judged [Oldroyd and Dobie, 2009]. In this manner, the surveys augmented accountability within the organization, but did not obviate the need for audited charge and discharge accounts. The same was true of the Bowes estates in the 1750s where opportunity-cost calculations were used to evaluate the performance of a lead-mine manager as a supplement to the regular accounting arrangements [Oldroyd, 2007, pp. 186-187].

Similarly, the costing records of the General Mining Association in Canada in the 19th century, the main purpose of which was to control costs and inform capital investment decisions, acted as a supplementary control of managers alongside the regular financial accounts. The directors, who were based in London, felt seriously disadvantaged by their distance from the company's operations, and compensated for their inability to witness the operations first-hand by investigating even the most "trifling" items of expenditure in the costing returns sent back from Canada [Fleischman and Oldroyd, 2001, p. 45]. Another example is Josiah Wedgwood's investigation of his costs and profit margins, which he later

used in pricing decisions. These revealed a history of dishonesty on the part of his head-clerk, resulting in his dismissal [McKendrick, 1970; Miller, 1989].

In most cases, the overlap of information characteristics has occurred the other way round, with stewardship information being utilized to inform a wider set of decisions. Medieval estate accounting is a case in point. In order to perform their accountability function, the stewards' accounts contained an "enormous amount of detailed information" that could be utilized for other purposes. At Norwich Cathedral Priory they were used to inform leasing decisions in the early 14th century [Harvey, 1994, pp. 95-96]. At Durham Cathedral Priory they were useful in planning the production of bread and ale [Dobie, 2011].

An analysis of treatises on double-entry bookkeeping (c.1547-1799) confirms that merchants were aware of the potential of their accounts for facilitating decisions [Edwards et al., 2009]. Hence, although the letters demanded by 16th century English merchants of their factors served primarily to hold them to account, the scope of the information conveyed by the factors was wider, thereby forming the basis of a range of business decisions, such as which commodities to buy and sell [Oldroyd, 1998].

Finally, Chow [1982] predicted and found evidence from the unregulated U.S. environment of 1926 that companies which voluntarily engaged auditors to verify their accounts benefited from better loan terms by signaling the future behavior of managers in protecting bondholders' interests.

The second reason why decision-useful information is unlikely to be capable of fully replicating stewardship effects is that achieving that level of assurance requires information which is capable of verification.¹⁶ This is consistent with the economic theory noted above, which emphasizes the importance of verifiability for effective stewardship, the contracting process being a prime example [Shivakumar, 2013, p. 379]. However, verifiability is

¹⁶ See also Barclay et al. [2005], Demerjian [2011] and Ball et al. [2015]. It is also reflected in the legal regulation that obliges auditors to base their opinion on verifiable evidence [Craig et al., 2017].

inevitably problematic for decision-useful information, as this must necessarily be forwards looking in order to be relevant, which introduces the added uncertainty of predicting the future. An example is valuing assets and liabilities in relation to future economic benefits, which Edwards et al. [2009, p. 562] describe as an “age old” problem that has proved “intractable” throughout history [Edwards, 1996, p. 64; Dean, 2010].¹⁷

History is replete with examples of the negative consequences arising when the verifiability of accounting data is compromised.¹⁸ The paper has already commented on the lack of verifiability in the accounting system established after the American Civil War to protect the contractual rights of former slaves, which resulted in their widespread exploitation. Similarly, the reliability of the information merchants received from their factors by post could be compromised in the absence of corroboration. The English Tudor merchant, John Johnson is an example. He relied on his brother to act as his agent in Calais and keep him apprised of events, but by the time he found out the true and dire state of the business through an indirect source, it was too late to take corrective action and bankruptcy ensued [Oldroyd, 1998].

Lee [2006] cites a catalogue of reporting scandals and resultant legislation in the U.S. and Britain, stretching back to the 19th century, to support his argument that a perpetual war is being waged between the protectors of the public interest in capital markets – notably the “auditors, legislators, government regulators and academics” [p. 420] – and those corporate managers who regard the information in financial reports as their private property. The “deceit” of the latter is only made possible because of the “subjective, flexible, and

¹⁷ For example, the issue of whether to measure assets at cost or value was discussed in early bookkeeping treatises particularly in relation to inventory [Edwards et al., 2009]. Governmental codes in France and Germany reveal a competition between the use of cost and market value dating back to the 17th century [Richard, 2005]. Socio-economic and political factors explain how each method was tried and rejected and tried again in Germany during the 19th and 20th centuries [Hoffmann and Detzen, 2013]. Walker [1992] relates how the SEC used its influence during the 1930s, 40s and 50s to discourage the “improper” practice of upward revaluations of fixed assets.

¹⁸ In extreme cases, entire markets can be affected, such as the freeze in interbank lending during the 2007/2009 financial crisis, which was precipitated by a lack of assurance on the part of lenders about the creditworthiness of counterparties as well as strength of their own balance sheets and capacity to lend [Cecchetti, 2009].

inconsistent rules that permit the reporting of accounting numbers with ambiguous economic meaning,” making them difficult to challenge [p. 421].¹⁹ Clarke et al. [2003] came to a similar conclusion from their analysis of Australian corporate collapses from the 1960s onwards. In more recent times, the use of internally generated estimated values in financial reporting was an important element in the Enron bankruptcy case [Benston and Hartgraves, 2002; Benston, 2006, 2008; Gwilliam and Jackson, 2008], all of which speaks of the importance of verifiability in achieving high quality stewardship effects.

The issue of verifiability and its implications for the recognition and valuation of assets and liabilities – with knock on effects for income measurement, capital maintenance, and manager and debtholder contract variables – lies at the heart of answering the question posed by FASB members in the discussions concerning CS#8 over what would differ “as a result of including a stewardship/accountability perspective” as well as a decision-usefulness one [Zeff, 2013, pp. 307-308].

GENERAL APPLICABILITY OF THE FINDINGS

There is inevitably a danger of making inappropriate connections in any generalized explanations of human behavior. Stevelinck [1985, p. 4], for example, maintains that “the accounts of the ancient world tell us very little [about the present], the economic environment then having been so very different from our own that no valid comparisons can be effected.” Previts and Bricker [1994] caution researchers against applying capital market methods to data from historical time periods without fully considering the business/finance environment of the period.²⁰ Likewise, Hopwood [1987, p. 208] criticizes authors who “have tended to see it [accounting] and study it in ways that are disconnected from the contexts in which it

¹⁹ See Blancheton [2012] for an example of manipulation by a central bank where the complexity of the monetary relations made verifiability problematic.

²⁰ In particular, they warn against researchers falling into the trap of “presentmindedness” by unguardedly applying modern-day assumptions of market efficiency to archival data [p. 626].

operates.” His assertion that “accounting has and still does become what it is not” has been developed by researchers in a variety of contexts [e.g. Hoskin and Macve, 2000]. Writing from a Foucauldian, genealogical perspective, Miller and Napier [1993], stress the transformative nature of accounting practice.

Such concerns are relevant to the current study given that its claims relating to the ongoing significance of stewardship information are based on evidence drawn primarily from the pre-regulation period. The question is whether that significance has diminished subsequently with the development of modern capital markets and globally dispersed investors to the extent that it can now be dispensed with as a financial reporting objective. Probably suspecting the answer to be yes,²¹ “Does stewardship (accountability) still have a role?” is the second of some thirty “cross-cutting issues” identified by FASB and IASB in a communications paper issued at the commencement of their joint CF project [Bullen and Crook, 2005, p. 14].²²

However, there are problems with this analysis from an historical perspective. The first difficulty is that the capital markets experienced continual change throughout the 20th century, and are continuing to do so in the 21st. Hence, the trade in securities is undoubtedly different now compared to say 1900, but given the scale and frequency of the changes, it would be difficult to identify the hypothetical tipping-point when developments within the market place rendered stewardship information so insignificant in the minds of investors that it could be dispensed with.

²¹ Whittington [2008, p. 499] attributes the dominance of decision-usefulness over stewardship in the U.S. to the strength of its capital-markets tradition and inherent belief in the ability of markets to discipline management through measures such as “the threat of take-over and the rewards of stock options and other market-related payments.”

²² By way of contrast, Zimmerman [2015, p. 503] argues that the value of decision-useful information depends on the provision of stewardship information because “...there is little to value unless the incentives of the key stakeholders are aligned.” See also the discussant’s view on his paper: “In terms of stewardship, that will always be important... Unfettered capitalism certainly does not work and we absolutely need stewardship. I think we can all agree on that” [Williams, 2015, p. 510].

The capital markets have been in a state of flux since the 1700s when a national market in government bonds was established in the U.K. to finance the costs of war, notably with France and America [Michie, 2016]. Developments in telegraph and telephone technology facilitated the creation of the first truly global securities market by the time of the First World War “in which money could be moved around the world in response to minute changes in supply and demand” [ibid., p. 251]. Advances in telecommunications and computing technologies further allowed markets to become fully electronic during the 1990s. Added to that, there have been the vicissitudes of two world wars and the shifting sands of enhanced and reduced regulation by governments. The pace of change has quickened in the period since the 1980s, which has witnessed a mushrooming in the number of markets and types of securities traded, especially those sold over-the-counter. Other developments during the last thirty years include a coalescing of exchanges and a growing dominance of the global banks, which though themselves supervised and regulated, can bypass the regulated exchanges in the transaction of their business through the interbank trading networks that have been created:

These banks possessed the ability to route their orders to whatever market they chose or match transactions internally, and to integrate the issue and trading of securities into the entire range of financial activities they were engaged in [ibid., p. 258].

Likewise, Zimmerman [2015] points to the relatively recent rise of private equity (PE) and venture capital (VC), which is again conducted outside the regulated exchanges. At what point developments in the markets brought about the purported decline in the significance of stewardship to investors is therefore hard to specify. Indeed, the increase in business conducted outside the regulated exchanges, whether it be internal bank dealings [Michie, 2016], VC financed start-ups, or PE-backed buyout deals [Zimmerman, 2015], points to a rising demand for stewardship information in the 21st century.

This impression of disconnectedness to changes in the marketplace is corroborated by Zeff's [2013] analysis of the various pronouncements and theoretical writings on the objectives of financial reporting over the last 90 years. He dates the appearance of the idea of "decision-usefulness" in accounting to the 1950s [p. 276]. However, the stance taken by CS#8 in 2010 in subsuming the stewardship objective within decision-usefulness comes as a surprise as it is not foreshadowed by the preceding writings cited in the paper. These tend to be wider in their conception of the economic-decisions and user-groups served by the accounts than CS#8, and see stewardship as playing a distinct accounting function even in cases where that is perceived as being subsidiary to the decision-usefulness one.²³

Finally, the argument that stewardship information has declined in importance to investors, who stand to make financial losses if businesses fail, is undermined by the number of accounting scandals. To cite but two examples, Burrough and Helyar [1990] report the case of RJR Nabisco, which maintained a fleet of 10 private aircraft and 36 company pilots, to which the CEO Ross Johnson's friends and dog had access. Tirole [2006, Ch. 1] refers to the Tyco case in 2002, in which the CEO and others are estimated to have stolen over \$100 million. Indeed, it could well be argued that the 2007/2009 financial crisis was more the result of a failure to establish proper incentives than to a lack of information: junk mortgages were known at time of issue as NINJA loans, meaning "no-income, no-job, no-assets," but banks had established incentives to generate high volumes of loan business and sell it on using credit default swaps [Hull, 2012, Ch. 8]. The incentives for lenders to responsibly issue loan products and for credit-rating agencies to properly assess complex portfolios of asset-backed securities have been subjected to extensive criticism, as has the performance of regulators in providing adequate oversight and of politicians in crafting public policy [Sowell, 2009; Kling, 2009a, 2009b; Wallison, 2016].

²³ See for example FASB (1978, par. 50).

CONCLUSION

The paper has analyzed FASB and IASB's decision not to treat the motivational and control aspects of stewardship accounting as a separate and distinct reporting objective to that of facilitating decisions. It has done so firstly by considering the demand for information to control agents, concentrating on the pre-regulation period as a means of controlling for regulatory pressure; and secondly by assessing the capacity of decision-useful information to replicate stewardship effects historically. The paper has argued that an essence to accounting exists based on the legal protection of property rights, encompassing stewardship, which has remained constant since earliest times.

The standards boards' reluctance to recognize the motivational and control aspects of stewardship information is out of alignment with economic theory, which regards this function as conceptually distinct from the decision-usefulness one. However, the boards' might still be justified in taking this approach if it could be shown that information which is useful for decisions is also capable of substituting for stewardship. To explore this possibility, the paper considered situations where the two types of information have acted as complements to each other.

The historical evidence suggests that while cases exist where decision-useful information has been used to supplement the existing accountability arrangements within organizations, it has not proved capable of acting as a substitute. The stumbling block is the need for stewardship information to be capable of verification if it is to be effective, which is problematic for decision-useful information owing to its forwards looking nature. Systems tend to break down when the verifiability of data is compromised, and accounting history provides many examples of the destabilizing consequences that result.

Finally, the paper has considered the general applicability of its findings given its focus on the pre-regulation period. In particular, there is the argument that developments in the capital markets over the last hundred years have lessened the demand for stewardship information by investors to the point where it can be ignored by standard setters as a reporting objective. However, this understanding of events falls down when one considers the nature and frequency of the changes, which would make it hard to identify when this situation occurred. The succession of writings on reporting objectives preceding CS#8 corroborates this view because they show that the decision of FASB/IASB to exclude stewardship in 2010 to be a new departure. Indeed, the rise in trading outside the regulated exchanges in the late 20th and early 21st centuries points to an increase in the relevance of stewardship information to investors rather than a decline. This impression of disconnectedness to market reality is reinforced by the frequent occurrence of accounting scandals that shows no signs of abating.

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