George Fox University

Digital Commons @ George Fox University

Faculty Publications - School of Business

School of Business

2014

Management Theory’s Impact on External Financial Reporting

Joshua Sauerwein

Follow this and additional works at: https://digitalcommons.georgefox.edu/gfsb

Part of the Business Commons

ADVANCES IN BUSINESS RESEARCH
2014, Volume 5, pages 63-73

Management Theory's Impact on External Financial Reporting

Joshua Sauerwein
George Fox University

Prevailing threads of management theory over the past century provide an intriguing backdrop for major innovations in external financial reporting. Three prevailing management theories, the efficiency movement, the human resource movement, and the strategy movement, are first identified and discussed. Evidence demonstrates that financial reporting innovations coincided with the rise of these theories. Thus, the needs of management, and not merely investors, play a critical role in external financial reporting. The article concludes with an examination of the strategy movement's continuing role in financial reporting through integrated reporting.

Keywords: Reporting innovations, efficiency movement, human resource movement, strategy movement, management theory, integrated reporting

Introduction

"Economic life goes on in a social and natural environment which changes and by its change alters the data of economic action (Schumpeter, 1942, 119)." While Schumpeter acknowledged that many different forces created smaller changes in the economy, it was innovation and creative destruction that truly altered the economic landscape. One might ask the same question regarding financial reporting - What forces created smaller changes and what forces truly altered the landscape? Obviously, the changing needs of investors, technological advancements, and international pressures have created both small and large-scale changes in financial reporting. Additionally, far-reaching scandals have spurred overhauls and innovations to financial reporting as seen in the case of Enron and WorldCom. However, this paper contends that prevailing management theory has also been a catalyst of large-scale innovation.

A review of the major themes in U.S. management theory shows three predominant threads; the efficiency movement, the human resource movement, and the strategy movement (Wren & Bedeian, 2009). Using these themes, this paper will show their immediate and continuing impact on financial reporting. While some of the innovations identified are no longer used in reporting, the shifts in thinking they spawned continue to produce fruit in today's reporting environment.

This paper begins with a review of Frederick Taylor and scientific management, to show how the focus on efficiency impacted the development of external financial reporting. Then the focus shifts to the works of Likert, Herzberg, and the movement toward human resources identifying their influence on reporting and qualitative information included in the notes to the financial statements. Finally, this paper focuses on the works of Ansoff, Drucker, and Porter demonstrating the connections between strategic thinking and the rise of social accounting, forward-looking financial information, and integrated reporting. It concludes by discussing unresolved issues spurred by the strategy movement and identify emerging trends of financial reporting.

The Efficiency Movement

Before the industrial revolution, the predominant form of business was a family-owned business. Because taxation of business by governmental entities was either minimal or non-existent, the only people needing information were family members (ownership), who often were also the managers as well. Therefore, what is currently termed management (cost) accounting, was an all-encompassing form of accounting. During these early years, management accounting and external financial reporting were virtually the same. However, with the rise of capital markets, public ownership, and the clear distinction between ownership and management, external financial reporting started to become a second thread of accounting practice and study. These delineations sparked debate about the informational needs of ownership and the informational needs of management.

One of the most influential management practitioners of the late 19th and early 20th centuries was Frederick Taylor (Wren & Bedeian, 2009). In his practice and study of scientific management, Taylor's focus was predominantly on efficiency. Because of this focus, his contributions had profound impacts on the field of management accounting as they determined how to measure efficiency and how to increase it. From this came the concepts of standard costing, various wage incentive plans, and measures of underutilization of capital assets (Vollmers, 1996). Taylor and other scientific managers found it necessary to develop accounting systems to measure, report, and analyze the success of his Scientific Management programs.

Taylor presented a paper to the American Society of Mechanical Engineers in which he argued that one of the leading functions of management (planning department) should be to determine and report the complete cost of all products manufactured (Chen & Pan, 1984). As noted in an earlier lecture given at Harvard, Taylor intended for this type of reporting to have both internal and external outlets. In an 1886 lecture, Taylor stated that regular monthly reporting to ownership should not only include a balance sheet and a detailed profit and loss statement, but also a detailed cost sheet (Chen & Pan, 1984). Because the distinction between management accounting and external reporting was often minimal during this time, Taylor's concepts also heavily influenced external reporting as well. This focus on efficiency, elimination of waste, and external reporting mechanisms to measure them began to appear in accounting literature and in an increasing number of public company financial reports through the stock market crash of 1929.

Nau (1913) struggled to define the roles of the internal bookkeeper and the outside public accountant. In contrast to current accounting practices at the time, Nau gave the public accountant primary responsibility for cost accounting functions. For him, the main role of the public accountant went beyond providing information to the investing public, but instead they should be charged with giving information to management concerning the elimination of waste and even the direction of efforts (Nau, 1913). To achieve this, he focused primarily on the measurement of income and expenses. More specifically, he advocated for cost accounting measures to be included in the external financial reports. Such techniques would include the allocation of overhead to different functions of the business, such as production and administration, and the reporting of actual costs compared against standard costs to determine efficiency of procurement and production (Nau, 1913). Though the allocation of overhead is not specifically reported on the face of the financial statements, in current day reporting they are included in expense accounts and identified in the notes to the financial statements. The comparison of actual costs to standard costs is not currently a function of external financial reporting, but a widely used technique of current cost accounting. Using Taylor's focus on efficiency, Nau's ideas made a valuable contribution to the current shape of external reporting.

After Nau, Mucklow (1917) refined the focus to the financial reporting of institutions such as hospitals, hotels, schools, and orphanages. He again focused on efficiency and its impact on the

income statement. He first proposed to break out all variable costs from fixed costs. He stated that the responsibility for fixed costs should be assigned to management, and the control of variable costs to the heads of departments and the staff (Mucklow, 1917). Next, he suggested that the attention on total expenses should be minimized, and instead reports should establish a permanent standard of comparison across time to evaluate efficiency of both parties. He therefore proposed that financial reports should include ratios of costs per person/per day to aid in this determination (Mucklow, 1917). Mucklow believed this approach to cost analysis could be used by all companies and not merely limited to the above named institutions. Few other institutions or businesses currently use such measures.

Taylor's focus on efficiency and its impact on financial reporting were not limited to accounting literature and theory. In the early part of the 20th century, there is also evidence to suggest that publically traded companies crafted their external financial reports to satisfy the desire of ownership to evaluate efficiency. Most notably, there was a fundamental shift in focus away from the balance sheet and towards the determination of income and the classification of expenses on the income statement. After reviewing the article titles in the Journal of Accountancy from its inception in 1905 to 1920, it is apparent that far more of the focus of external reporting was on the development of the income statement. This focus is consistent with Taylor's focus on efficiency and its measurement as well.

Additionally, there were concurrent advances in the interpretation of financial statements to assess efficiency in multiple areas of an entity. Building on Taylor's work, Wildman (1914) advocated the use of ratios to determine relationships between sales and accounts receivable, relationships between finished-goods inventories and sales, and profit margin ratios. Currently, many accounting textbooks use a form of these ratios to assess the efficiency of receivable collections, the efficiency of inventory management, and the efficiency of labor contributions to inventory. Many of Taylor's contributions to management theory can still be seen in external financial reporting and his focus on efficiency appears to be a continuing contribution.

The Human Resource Movement

Some of Taylor's greatest critics claimed his work was so focused on efficiency that it became detrimental to the actual people doing the work. Though Taylor disagreed and challenged these claims, they did pave the way for researchers such as Follett, McGregor, Herzberg, and Likert to begin studying the field of human interactions in the work place (Wren & Bedeian, 2009). This research was not as easy to quantify as scientific management leading to a rise in qualitative studies on job satisfaction, job attitudes, and the attempt to correlate financial performance to managerial leadership styles.

The effects of this research were not limited to management circles. Because of this research, the theory and practice of external financial reporting was shaped in two major ways. First, there were numerous debates in the academy concerning the creation and implementation of models to value human resources as assets on the balance sheet. Second, as the qualitative informational needs of management increased and the amount of qualitative research grew, there was a concurrent rise in the volume of qualitative information included in external financial reporting.

Human Resource Accounting

In response to two books by Likert (1961)(1967), Brummet et al. (1968), developed the concept of human resource accounting (HRA). This new paradigm trumpeted the importance of including human resources as assets in the financial statements (Brummet, et al., 1968). They argued that while a number of corporate annual reports consistently report that their most important assets

are their employees, all costs to recruit, hire, train, and develop their employees are treated as expenses against income rather than capital assets that have long-term value. Since there is a meaningful correlation between the profitability of an organization and their expenditures on human resources, according to the authors, the measurement of value of human resources should assist in management and investor decision making (Brummet, et al., 1968). Additionally, if human resources were measured as assets, the authors claimed that mass layoffs of employees, which have a tendency to increase current income but harm long-term income because of deteriorating employee attitudes and motivation, would decrease and force managers to place greater emphasis on the long-term profitability and capital budgeting of the organization. The article ended by describing the authors attempts to institute HRA at R.G. Barry Corporation, a public company, and the measurement models that were used.

As expected, HRA began a vigorous debate among academics and practitioners. In response to Brummet et al., Likert & Bowers (1969) underscored the importance of HRA research and described pilot studies being undertaken to establish a framework of theory. Using multiple questionnaires drafted from his two books mentioned above, they described their five-year longitudinal study in progress at twenty organization sites, including over 11,000 people (Likert & Bowers, 1969). The study focused on the correlation between a set of causal and intervening variables and their effects on a set of end-result variables. The causal variables are independent variables that "can be directly and purposely altered or changed by the organization and its management,"- such as organizational structure, management policies and decisions, and leadership strategies, skills, and behaviors (Likert & Bowers, 1969, 586). They described intervening variables as another set of independent variables that can proxy for the "internal state, health, and performance capabilities of the organization" (Likert & Bowers, 1969, 586). These include such variables as the loyalties, attitudes, motivations, performance goals, and perceptions of all members of the organization which affect the interaction, communication, and decision making capability of the organization (Likert & Bowers, 1969). The authors correlated these two sets of independent variables against dependent variables such as productivity, costs, growth, share of the market, and earnings. Over a two-year span of study, the authors found statistical significance in the coefficients of all twelve variables included in the causal and intervening variables. Based on the strength of these findings, the authors called for extended research in this area and offered their research model as a possible foundation for the measurement of human resource assets (Likert & Bowers, 1969). One year later, the authors' model would be used to further develop measurement techniques for HRA.

Flamholtz's (1972) article established a framework to measure the value of human resources. His model attempted to project the future benefits of service attributable to an employee and discount it back to present value, or, as Flamholtz suggests, "the ultimate measure of a person's worth is his expected realizable value (Flamholtz, 1972, 675)." The future benefits, known as conditional value, are comprised of the following variables: employee skills, motivation level, promotability, productivity, transferability, organizational role, and organizational rewards received (Flamholtz, 1972). All of these are projected out over a five to ten year time horizon and discounted back to present value using a function of the employee's probability of tenure in the organization. Flamholtz suggested this model will not only help investors make better capital allocation decisions, but it should aid management is assessing employee performance, and help directors assess management's stewardship of human resources. Problems naturally arose in the use of this model since the performance of an individual employee is difficult to distinguish from the performance of an entire team or organization. Even though this model was never used in practice, a diluted form of it was used at R.G. Barry Corporation (Barry Corporation, 1969).

In 1969 and 1970, R.G. Barry Corporation filed the first corporate reports including HRA measurements (Barry Corporation, 1969). During these years, R.G. Barry capitalized, rather than

expensed, selected recruiting, hiring, and training costs of many employees. However, when the annual reports were released to the public there was a considerable public outcry claiming "there go the accountants again, trying to reduce people to numbers and dehumanize the workplace" (Previts & Merino, 1998). Rhode, Lawler, and Sundem (1976) were critical of the effects this might have on the employees being valued. They stated that if the value placed on employee was less than the value of the compensation received, dissatisfaction would increase. Additionally, the authors claimed "publicizing human resource data could also have a disastrous impact on the attitudes (self-esteem) of employees whose resource values are declining" (Rhode, et al., 1976).

The research and implementation of HRA hit its apex in 1974 when the American Accounting Association established a temporary Committee on Human Resource Accounting. After only a couple of years the committee was discontinued and HRA met its demise. Ultimately, the acceptance of an accurate model and public perception of placing value on humans brought the research to an end. However, as the rise of the knowledge worker gained footing in the late 1990s and 2000s, the topic has again appeared in accounting literature, though to a much lesser extent. Currently, according to the FASB's technical agenda (2014), there are no plans to take up the project, but the insights and models established in HRA have been refined and put into use in the valuation of other intangible assets, such as customer lists.

Qualitative Information

The human resource movement in management theory also affected the volume of qualitative information disclosed in external financial reporting. Prior to 1934, accounting did not have a central governing body. Therefore, much of the regulation of public financial statements was the responsibility of individual states. Before 1930, no state required disclosures to the investing public (Hawkins, 1986). However, since 1930 there has been an exponential rise of both required and voluntary note disclosures in United States corporate reports. Lanfranconi found similar results among Canadian companies when he found that the number of pages devoted to footnotes in the annual reports increased tenfold over the period 1955 to 1974 (Lanfranconi, 1976). Therefore, as management theorists turned their attention on more qualitative aspects, such as human resources, the accounting profession also started to include more qualitative information in their external reporting.

Clearly, the human resource movement was not the sole driver of the volume of corporate disclosures. There were obviously other significant factors such as the increased legal liabilities of corporations and auditors, the appearance of corporate analysts, and the establishment of formal accounting policy bodies, such as the Committee on Accounting Procedures, the Accounting Principles Board, and the Financial Accounting Standards Board. However, it is important to note that the solution given for many of external financial reporting's limitations during this period was increased disclosures. This easy-fix remedy continues to be given today, even though the cost of preparing such disclosures makes the listing of a company on a public exchange more cost prohibitive, giving rise to move private finance options and overseas listings.

The Strategy Movement

Known as the father of strategic management, Igor Ansoff was on the leading edge of a new direction of management thought. Beginning with his works in the 1960s and continuing through Michael Porter's works, which began in the late 70s and continues today, Strategy has become a major focus in management literature. During this same time-period, the field of accounting began concerted

efforts to incorporate strategic thinking into external financial reporting in two different ways. The first is social accounting and the second is forward-looking financial projections and information.

Social Accounting

Ansoff's (1965) book, *Corporate Strategy: An Analytical Approach to Business Policy for Growth and Expansion,* was ground-breaking for a number of reasons, but his greatest contribution to accounting was the development of the stakeholder theory. In this work, Ansoff argued for the existence of two types of corporate objectives: economic and social. He purported that the focus of management should go beyond the individuals who own shares of stock to all parties who may be affected by a corporate decision (Ansoff, 1965). This same thread of stakeholder theory was addressed by many management theorists such as Porter (1985), and Mintzberg (1983). As a result, accounting standard setters began to shift their understanding of reporting as well. Instead of using external financial statements only to report stewardship of resources to ownership, standard setters broadened the intent of reporting to include stakeholders too. The result of this new way of thinking and reporting was called Social Accounting.

During the 1950s and 1960s, a select few publically-traded companies included voluntary disclosures in their external financial statements regarding their involvement in social responsibility. These reported activities often included contributions to charities and involvement in community activities (Ramanathan, 1976). However, beginning in the early 1970s, as the stakeholder theory of management began to gain footing, social accounting became a hot button issue in accounting circles. In 1972, the American Institute of Certified Public Accountants sponsored a conference on Social Measurement (American Accounting Association, 1975). Concurrently, in 1972, the American Accounting Association started the Committee on Social Costs. The central focus of their efforts was to define and develop measurement tools to determine the impact any given entity has on society and the surrounding environment (American Accounting Association, 1975).

This committee was a major advocate for including cost/benefit measurement of a firm's social programs and activities in external financial reporting. However, they expanded the scope of social programs and activities beyond contributions to charity to include affirmative action programs, environmental activities, product safety and quality, responsibility to personnel, and even bank lending activities to low-income families and students. Using this committee's work as a springboard, it is apparent many firms began incorporating social accounting into their external financial reports.

The company receiving the most attention for incorporating social accounting was Abt Associates, Inc. In their 1971, 1972, and 1973 annual reports, Abt included a social income statement and a social balance sheet. In these reports, they developed a " - series of social accounting cost/benefit statements to tie in with five consulting services they offer in social accounting: an, a social audit, an social evaluation of routine operations, and an analysis of social policy impact on financial performance" (American Accounting Association, 1975, 60). Abt would later provide their social audits to a number of firms and assist them in producing social balance sheets that included *society's equity* as an account and included footnotes to describe measurement techniques (American Accounting Association, 1975). The work of Abt was highly controversial in management and accounting circles at that time. Though Abt is still a viable firm, it appears they no longer assist companies in external financial reporting of social accounting.

A second leader in social accounting was Eastern Gas and Fuel Associates. Included in their external reports was a three page account of the firm's social activities entitled "Toward Social Accounting" (American Accounting Association, 1975). This report contained a discussion on industrial safety, minority employment, charitable giving, and pensions, with overall performance measured quantitatively. After surveying their current shareholders, Eastern was pleased to find their shareholders were satisfied with this type of reporting and desired even more information on

environmental responsibilities and consumer's rights (American Accounting Association, 1975). In spite of the good reviews from shareholders, Eastern discontinued this practice in the late 1970s.

First Pennsylvania Bank was another leader in external reporting of social accounting. In April, 1973, they included a social scorecard in their financial reports showing the main areas of social involvement and performance measures for these areas (American Accounting Association, 1975). The main areas addressed were "minority lending, minority and female employment, minority purchasing, and contributions to urban affairs" (American Accounting Association, 1975, 61). In a similar fashion, Scovill Manufacturing also produced a Social Action report in the same year. Using a balance sheet format, Scovill reported on areas such as employment opportunities, environmental controls, community involvement, and consumerism (American Accounting Association, 1975). However, these entries were only qualitative and did not attempt to quantify the nature of assets or liabilities of the social concerns.

Throughout the mid-1970s companies such as Abbott Labs, Bank of America, Eastman Kodak, Exxon, Ford, General Motors, IBM, U.S. Steel, and Xerox piloted attempts at social accounting in their external financial reports. In fact, 298 of the Fortune 500 industrial firms disclosed some type of social performance data in their 1973 annual reports (Beresford, 1974). In addition to its growing application in practice, there was also significant attention given to the topic in accounting literature. As with most of accounting literature on revolutionary reporting practices, the discussion started with a general framework and definition, moved to valuation and measurement topics, and culminated with proposed reporting standards. Much attention was given to investor's reactions to such disclosures and the effects on stock price and firm perception. However, the challenges of implementation proved to be too much and this topic met its demise by the end of the 1970s.

Social accounting created as many questions as answers. While many accountants were in favor of creating standards for the reporting of social accounting, efforts to operationalize it were met with great resistance. First, there was never a consistent definition of what constituted a social action. Some claimed only quantifiable measures, such as charitable contributions, should be included. Others claimed that the firm's responsibility to society went far beyond mere monetary contributions. Second, the issue of whether accountants should be making implicit value judgments or simply reporting economic events became a controversial issue (Previts & Merino, 1998). Third, there never appeared to be a consistent method of measurement. Benefits and costs to society of specific programs and efforts would not only require more cost to the reporting entity, but their measurements would be based on high levels of management subjectivity, thus reducing the reliability of financial reports. Fourth, because disclosures and measurements were being included in external financial reports, this social data was almost unauditable leaving the CPA firms wide open to potential litigation.

Some claim that the fascination with social accounting ended with the oil embargos of the 1970s, ushering in return to managing profitability in tight economic times (Previts & Merino, 1998). Additionally, in spite of the work of the Committee on Social Costs, the FASB never created any standards on the issue, which destroyed enforceability and consistency of measurements. However, pieces of social accounting, like the Triple Bottom Line and the Global Reporting Initiative, have survived.

Today, the inclusion of corporate sustainability measures in external reports is gaining acceptance. While most social accounting efforts ended in the late 1970s, some companies continued to provide additional disclosures of social activities throughout the 1980s. In the 1990s, the stand-alone social accounting reports re-emerged – primarily in the private sector (Gray, Dillard, & Spence, 2009). These new reports have focused primarily on corporate sustainability and responsibility over societal resources, using new measures such as the triple bottom line (TBL) and the global reporting initiative (GRI). As recently as 2002, the Environmental Management Accounting Network was formed to advocate for the increased use of accounting measures in corporate sustainability (Gray, et

al., 2009). Though the progress in academic literature has not kept pace, it appears this subject may again become one of interest for practitioners and academics.

Forward-Looking Financial Information

The strategy movement in management theory has not only helped to create social accounting, it has also helped spawn forward-looking financial information and the management discussion and analysis section of external financial reporting. In 1979 the Securities and Exchange Commission (SEC) passed Rule 175, which began the process of establishing guidance and regulation on the topic of forward-looking financial information. Leading up to the passage of this rule, publically traded corporations had predominantly reported on historical financial information included in the balance sheet, income statement, and statement of cash flows. However, during the mid-70s, corporations began to reveal some of their strategic thinking by including projected earnings in their corporate financial reports. The SEC passed Rule 175 to establish a safe harbor to encourage more corporations to provide this type of information to investors and mitigate their liability for providing potentially misleading information.

Just a year later, the SEC (1980) passed Release No.33-6231 requiring a management discussion and analysis (MD&A) section to be added to the annual financial reports of publically traded firms. As stated by the SEC, the primary objective of this requirement was to provide additional information to investors regarding the entity's purpose, operations, and future expectations (SEC, 1980). The policy stated that MD&A should address five specific areas: operations, financial condition, liquidity, forward-looking information, and risk and uncertainty (emphasis mine). Though currently these are requirements for all corporate financial reports, they started with a few select firms attempting to disseminate specific pieces of corporate strategy to current and potential investors.

The Future

The influence of management theory on external financial reporting is substantial and intriguing. Knowing the ongoing impact of management theory on accounting, the logical question is to ask if the past will be prologue for the future of financial reporting. More specifically, how will management theory continue to impact the future of financial reporting?

While new, major threads of management theory have emerged since the strategy movement (see leadership and strategic leadership), it would appear that financial reporting is still being deeply impacted by the focus on strategy. An issue that is now receiving much press, often negative, and the full attention of standard setters is the call for forward-looking and fair value financial information. Because these measurements often involve the use of projected cash flows, there must be consideration given to the models and discount factors used. These models and discount factors are "a function of management's future actions, including managers' conceptualization and implementation of firm strategy" (Ramanna & Watts, 2012). Therefore, it is imperative that external users have access to key pieces of strategy, provided in the notes to the financial statements, in order to make independent verifications and assess the quality of management's estimates. While FASB has made promulgations in SFAS 157 (FASB, 2006) addressing these informational needs, they do not currently require the needed disclosure to make independent verifications.

International Financial Reporting Standards (IFRS) contain the same weakness. This is not surprising as the FASB and the International Accounting Standards Board (IASB) have worked to converge their standards in accordance with the Norwalk Agreement of 2002 and subsequent Memorandums of Understanding (MoU) in 2006, 2008, and 2010. As stated in their 2006 MoU, one of the significant projects undertaken by the two standard-setters was fair value measurements

(Financial Accounting Standards Board, 2006). In response to SFAS 157, the IASB released IAS 13 in May of 2011. While IAS 13 does require companies to disclose their methods and significant assumptions of fair value measurements, they do not require companies to disclose their discount rates. This obviously leads to greater "information asymmetry between preparers and users" (Palea & Maino, 2013, 266).

In spite of the progress made on SFAS 157 and IFRS 13 (IASB, 2013), the SEC has backed off of their convergence project with the IASB. In July, 2012 the SEC released a report claiming that there was little support in the U.S. capital markets for IASB authority over accounting standards (Kaya & Pillhofer, 2013). While the FASB and IASB will still continue to work together on specific reporting objectives, this report made it clear that total convergence with or adoption of IFRS by the United States will not be forthcoming in the near future. Given these recent developments, it will be interesting to watch how far each of these standard setters will push the requirements for disclosure of proprietary, corporate strategy.

While some reporting entities will wait on standard setters to require additional disclosures, other entities are seeking to be on the leading edge of financial reporting innovation. In recent years, the impact of the strategy movement has spawned the International Integrated Reporting Council (IIRC), which seeks to redefine financial reporting by providing integrated reports that "report….an organization's ability to create value over time" (International Integrated Reporting Council, 2013, 4). The initial guiding principle of these reports is to provide "insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals" (International Integrated Reporting Council, 2013, 2). Going far beyond the traditional corporate reports, these integrated reports would provide key details on an organization's governance structure, business model, relationships with customers, suppliers, business partners, and local communities, as well as information on employees and future outlook.

While integrated reporting is still in its infancy stages, the reports themselves as well as their impact on users is fascinating to consider. Will these innovations bridge important gaps in backwards-looking performance reporting and true corporate value? Will they increase transparency and help restore market confidence? How will stakeholder relationships be measured? Will there be concurrent innovations in assurance services? Whatever the outcome, Mervyn King, Chairman of the IIRC, states that "it has to be accepted that corporate reporting as we have known it for years is no longer fit for the purpose because it does not deal with the total value of a company" (PWC, 2013, 5).

Management theory has generated many important financial reporting innovations, from measurement of income, to measurement of human resources, to the measurement of corporate value. As one takes a broad view of their history, it is easy to see that they are connected in some deep ways. As these relationships are further examined, it naturally begs the question; Are the needs and preferences of internal and external users that different, or can we observe their needs and preferences converging over time? These are important questions for standard setters, preparers and academics to wrestle with as they look to the future of financial reporting.

References

American Accounting Association. (1975). Report of the Committee on Social Costs. The Accounting Review, pp. 50-89.

Ansoff, I. (1965). Corporate Strategy: An Analytical Approach to Business Policy for Growth and Expansion. New York: McGraw-Hill.

Barry Corporation. (1969). 1969 Annual Report. Columbus, OH.

Beresford, D. (1974). Compilation of Social Measurement Disclosures in Fortune 500 Annual Reports-1973, Chicago: Ernst and Ernst.
Brummet, R. L., Flamholtz, E. G. & Pyle, W. C. (1968). Human resource measurement - A challenge for accountants. The Accounting Review, April, 63(2), pp. 217-224.
Chen, R. S. & Pan, S.-D. (1984). Taylor's contribution to cost accounting, a reply. The Accounting Historians Journal, Spring, 1(1), pp. 151-161.
FASB. (2006). Fair Value Measurements. Norwalk, CT: Financial Accounting Standards Board.
FASB. (2014). 2014 Technical Agenda Overview. Norwalk, CT: Financial Accounting Standards Board.
Financial Accounting Standards Board (2006). A Roadmap for Convergence between IFRSs and US GAAP—2006-2008: Memorandum of Understanding between the FASB and the IASB, Norwalk, CT: Financial Accounting Standards Board.
Flamholtz, E. (1972). Toward a theory of human resource value in formal organizations. The Accounting Review, October, 47(4), pp. 666-678.
Gray, R., Dillard, J. & Spence, C. (2009). Social accounting research as if the world matters. Public Management Review, 11(5), pp. 545-573.
Hawkins, D. (1986). Corporate Financial Disclosure: 1900-1933. New York and London: Garland Publishing, Inc..
IASB. (2013). Fair Value Measurement. London, UK: International Accounting Standards Board.
International Integrated Reporting Council (2013). The International <IR> Framework, London: International Integrated Reporting Council.
Kaya, D. & Pillhofer, J. A. (2013). Potential Adoption of IFRS by the United States: A Critical View. Accounting Horizons, 27(2), pp. 271-299.
Lanfranconi, C. (1976). Change in corporate financial disclosure in Canada: an empirical study of the use of notes to financial statements and supplementary financial data schedules for disclosure in annual reports in Canada. unpublished dissertation.
Likert, R. (1961). New Patterns of Management. New York, NY. McGraw-Hill, Inc.
Likert, R. (1967). The Human Organization: Its Management and Value. New York, NY. McGraw-Hill, Inc.
Likert, R. & Bowers, D. G. (1969). Organizational theory and human resource accounting. American Psychologist, June, 24(6), pp. 585-592.
Mintzberg, H. (1983). Power In and Around Organizations. Englewood Cliffs, NJ: Prentice Hall.
Mucklow, W. (1917). Measuring financial efficiency of institutions. The Journal of Accountancy, February, 23(2), pp. 81-98.
Nau, C. H. (1913). Accounting as a basis for and a measure of efficiency in business. The Journal of Accountancy, March, 15(3), pp. 143-156.
Palea, V. & Maino, R. (2013). Private Equity Fair Value Measurement: A Critical Perspective on IFRS 13. Australian Accounting Review, 23(3), pp. 264-278.
Porter, M.E. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. New York: Free Press.
Previts, G. J. & Merino, B. D. (1998). A History of Accountancy in the United States. Columbus, OH: Ohio State University Press.
PWC. (2013). The value creation journey: A survey of JSE top-40 companies' integrated reports. London: Price Waterhouse Coopers.
Ramanathan, K. (1976). Toward a theory of corporate social accounting. The Accounting Review, July.pp. 516-528.
Ramanna, K. & Watts, R. L. (2012). Evidence on the use of unverifiable estimates in required goodwill impairment. Review of Accounting Studies, Volume 17, pp. 749-780.

Rhode, J. G., Lawler III, E. E. & Sundem, G. L. (1976). Human resource accounting: a critical assessment. Industrial Relations, February, 15(1), pp. 13-25.
Schumpeter, J. (1942). Capitalism, Socialism, and Democracy. s.l.:Harper and Row.
Vollmers, G. (1996). Accounting for idle capacity: its place in the historical cost literature and conjecture about its disappearance. The Accounting Historians Journal, June, 23(1), pp. 25-49.
SEC. (1980). Release No. 33-6231, Final Rule: Amendments to Annual Report Form, Related Forms, Rules, Regulations, and Guides; Integration of Securities Act Disclosure Systems.
Wildman, J. (1914). Interpretation of financial statements. The Journal of Accountancy, pp. 185-195.
Wren, D.A., Bedeian, A.G. (2009). The Evolution of Management Thought. Hoboken, NJ: John Wiley & Sons, Inc.

Dr. Joshua Sauerwein is an Assistant Professor of Accounting at George Fox University. His research interests include the ethical decision-making process of accountants, the professional development of accounting students, and the history of accounting.