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Men of steel: Voluntary accounting information disclosure in the first third of the twentieth century at U.S. Steel Corporation

Kevin C. Carduff [a], Timothy J. Fogarty [b,*]

[a] Department of Accounting and Business Law, Siena College, Loundonville, NY 12211, USA
[b] Department of Accountancy, Case Western Reserve University, Cleveland, Ohio 44106, USA

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ABSTRACT

Before the emergence of accounting regulation and broadly-based equity ownership in the US, corporations had a relatively free hand over financial information disclosure. Why information was disseminated was therefore a purer window into corporate strategy. This paper considers the case of U.S. Steel Corporation, a dominant industrial company for the good part of the 20th century in the world's largest economy. Two explanations, stewardship and legitimacy theory are offered as rationales for the company's relatively high level of voluntary disclosure. The results suggest that the stewardship model is the one most likely to explain the variation in the historical pattern of disclosure.

Introduction

The United States Steel Corporation (USS) was formed in 1901. This unprecedented for the time large entity had initial capitalization nearly three times as large as the revenue of the turn of the century US government (Gordon, 2004). Its very existence was the product of robber baron dreams for a giant steel conglomerate at the dawning of what would be America's century (Carduff, 2010). USS also pioneered many practices that today pass for the conventional wisdom of shrew management (McCraw & Reinhardt, 1989).

The scale of USS brought with it much attention including charges of watered stock (Strouse, 1999). However, USS soon became a paragon of disclosure, issuing in 1903 what was described as "the most complete and circumstantial report ever issued by an American corporation" (Allen & McDermott, 1993). Many credit USS's early reports as consequential in the history of financial statement disclosure (e.g., May, 1961).

The corporate reporting done by USS has been sufficiently noteworthy to have gained a disproportionate share of previous attention by both practitioners and scholars. The former held out USS as a role model for other companies to emulate (Dickinson, 1978; Lough, 1913). USS has been the subject of dissertations by the latter (Carduff, 2010; Vangermeersch, 1970). More specific studies have also used USS to illustrate pivotal changes in corporate reporting style (Claire, 1945).

The large amount of discretion disclosure at USS over the years begs for explanation. Why would a corporation, operating in an unregulated or lightly regulated environment, provide information that it was not required to disclose? This paper offers two possibilities: stewardship and legitimacy. The evidence from the test of these theories points toward stewardship as a more feasible explanation.

This paper is organized into three subsequent parts. The first describes USS reporting and develops the theoretical explanations. This concludes with the statement of testable hypotheses. The second describes the nature of the empirical study. The final section describes the results and discusses their importance.

* Corresponding author. Tel.: +1 216 368 3938; fax: +1 216 368 6244.
E-mail address: tjf@case.edu (T.J. Fogarty).

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Background and literature review

USS disclosures

Today's readership would have to be impressed at the sheer descriptive grandeur of USS reporting from this bygone time. Some of the content of USS's first report (1902) included the traditional financial statements, and many schedules of critical assets (including plants, mines and railroads). Liabilities were painstakingly described in separate schedules. As early as 1903, USS also provided detailed information about ongoing construction activities and replacement plans.

The primitive state of corporate financial reporting during this era is now difficult to imagine. Nonetheless, USS stood out in that it provided a separate income statement for every year of its existence (Vangermeersch, 1979). Early versions of a cash flow statement were also offered as evidence of corporate performance. USS's reporting also presaged modernity by featuring an auditor's report, penned by Price Waterhouse in 1902.

Another distinctive section of the era's reports was the "letter to the shareholders." In 1902, it spanned 19 pages and comprised more than half of the report. The extensive detail provided about the operations of the firm compares very favorably with the corporate communications of today that go under a similar name, but are essentially public relation efforts (Smith & Taffler, 2000) and lacking high levels of information content (Abrahamson & Amir, 1996).

USS's early letters provided rich detail on sales, production, asset composition, owners' equity composition and employees. This format was also used to discuss the major transactions of the years, often describing the acquisition of competitors. The letter, which averaged 24 pages between 1902 and 1905, was also quite "forward looking" in its discussion of earnings potential, productivity trends and capital expansion. Highly disaggregated data, such as monthly sales information and separately stated subsidiary company accounts, were regularly provided.

USS reporting of the era also pioneered the use of charts and tables as a method to communicate financial and operational information. These were used both on a free-standing basis and as a way to illustrate central points made in the President's narrative. This combination was relatively rare for its time.

USS's reporting also should be put into a comparative context. During this era, USS's annual report averaged approximately 52 pages. Other large public companies of the day tended not to provide lengthy or detailed comprehensive reports (Brief, 1987). General Motors' reports were between 14 and 18 pages in length. DuPont's reports ranged between 9 and 12 pages, but ballooned one time to 30 pages in 1918. The National Biscuit Company's reports during this era were less than 10 pages each. The reports for Sherwin Williams between 1910 and 1919 were each three pages. Standard Oil (California) had a one page annual report in 1911 containing an eight line balance sheet, that was expanded in 1919 to a two page report with a balance sheet and brief narrative. Thus, the corporate disclosure at USS is consistently atypical.

The leadership shown by USS in voluntary corporate financial reporting was not confined to the early years of the 20th century, nor did it end with the passage of the federal securities laws in 1933 and 1934. USS was an early adopter of the best practices guidelines constructed in 1938 by the National Association of Manufacturers for the modernization of disclosure (Vorhees, 1970). These suggestions worked a reorientation of reporting away from exclusive reliance on technical information and rigid presentations and toward a use of everyday vernacular and user friendly presentation (i.e., pictures, graphs). Apparently, expanded information dissemination was not just the strategy of a few managers at USS, but was more of a corporate ethos of the company.

Although the primary purpose of financial reporting at USS has always been to report the results of operations and relate the financial health of the company, the contents of these communications have not always been so strictly constrained. Particularly at difficult times in national history, USS commented directly on the issues of the day. These include labor unrest, war profits, governmental interference, and international competition. As observed about General Motors by Neimark (1983), corporate reporting is a text that can inform many social issues.

Few would disagree that USS's corporate disclosures were path-breaking. That they pre-dated the Securities Acts by many decades is quite impressive. The company was acting without apparent external coercion, but also different from what would become a need to lightly guard proprietary information.

Stewardship theory

Stewardship in a management context is most often contrasted with agency theory (e.g., Davis, Schoorman, & Donaldson, 1997). Although agency theory constructs the prospect that management could be self-serving, opportunist and individually motivated, it does not provide clear lines of behavior with regard to corporate disclosure. Managers left alone might disclose nothing beyond that which was required. But since such would incur the so-called agency costs, they have incentives to signal (sometimes falsely) through voluntary disclosure. Although the economics paradigm that underlies agency is appealing in its reductionistic capabilities, it cannot diminish the prospect that management is trustworthy, pro-organizational and collective in orientation.

Modern thinking about the corporate form has not been kind to stewardship conceptions. Kaufman and Englander (2004) suggest that managers have captured a disproportionate share of the new wealth that has been created by the progressive success of business, ushering in an era of greed and opportunism more supportive of an agency theory worldview. Stewardship has also been relatively diminished by the semi-official endorsement of a capital markets perspective by standard setting entities. Rather than focus on each company as the important unit of analysis, modern standard setters have embraced equity markets as the primary concern. Here, corporations and the quality of their management possess importance only insofar as they support market capital allocation. Thus, the exclusion of stewardship from the sanctioned objectives of reporting by