Tracing the American Concept of Stewardship to English Antecedents

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TRACING THE AMERICAN CONCEPT OF STEWARDSHIP TO ENGLISH ANTECEDENTS

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The contemporary American concept of stewardship is currently being criticized regarding its ability to meet the needs of a changing society. Some critics say that Americans have forgotten stewardship and some infer that it is missing or dead. This paper proposes that before we complete our speculation about the future of the concept of stewardship we need to consider its evolutionary history. A cross-national approach is used to locate the concept in its sociohistorical context. To this purpose, the paper traces the concept of stewardship from 13th century England to the modern American corporation. By identifying how it has evolved differently in America than it did in England, the paper concludes that the American concept is alive and viable in its own unique form. Questions regarding whether the American concept can survive in this form or how it might adapt in the future are left to future research. However, since accounting appears to be stewardship driven, researchers looking for a coherent legal/accounting theory of stewardship may find that evolutionary changes in the social and legal concept of stewardship subsequently lead to changes in accounting theory and procedure.

INTRODUCTION

As we enter the 1990s, accountants are continuously being asked to review basic accounting concepts (historical cost, stable dollar, etc.), to see if they still meet the needs of a changing society. Unfortunately, quite often the focus of these reviews is directed toward the future without full consideration of the concept’s historical antecedents. By comparison, imagine an anthropologist speculating about the future evolution of mankind without first considering man’s evolutionary history. However, not everyone agrees with this comparison. Lister (1984) has suggested that accounting history might be a ‘... series of disconnected episodes rather

* An earlier version of this paper was presented at the Southeast American Accounting Association meeting in April 1990. The authors wish to acknowledge the comments of participants at this seminar, of colleagues at San Diego State University, and of several other readers. The comments from an anonymous reviewer were instrumental in revisions linking the evolution of the legal concept of stewardship to the more rigorous accounting concept.

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0880-8389/91/040355-04 03.00/0 © 1991 Academic Press Limited
than a coherent development... lacking any scientific basis. With due consideration to the above, it is proposed in this paper that a historical review of the concept of stewardship will provide a valuable platform for conjecture about the future of the accounting concept.

Napier (1989) identified this approach as *contextualising accounting*, and one of the three '... main thrusts of research into accounting history'. Napier attributes the name of this approach to a paper by Hopwood (1983). This approach appears to work well in this paper because we are interested in studying a concept as it changes through time, enabling us to see different phenomena and shifts in the nature of the concept. Perhaps, the most important historical transition occurs when we see the legal enforcement of the concept of stewardship move out of chancery into the common law. This is similar to shifts in power identified by Foucault (1980) from 'sovereign power' to 'disciplinary power'.

The historical research methodology utilized in the paper not only studies stewardship as an element of a changing social and organisational environment but, also uses a cross-national approach. Limiting the study of the American concept of stewardship to American history would fail to take advantage of the richness to be gained from international perspectives. Strong support was recently voiced for cross-national accounting research projects by a North Atlantic Academic Accounting Conference (1989).

The paper, in part, a response to some recent comments from colleagues that the accounting concept of stewardship is 'dead'. When we pursued the topic we often found that the comments stemmed from an apparent absence of an easily recognised familiar concept. That this concern about stewardship is generally more widespread is supported by some recent comments from one of our Texas congressmen that, 'The Japanese own America. We have forgotten stewardship—we need to grab a shovel and clean out the stable. It is long overdue'. What we propose in this paper, by way of an explanation, is that the concept of stewardship has not disappeared but, instead, has merely changed. An analogy might be that when an observer would return to a town not visited for 50 years and upon not finding the remembered young child, would declare that the person must be dead, instead of recognising the older person that the child had become.

Therefore, before we bury the concept of stewardship, we believe that a thorough historical review is appropriate. To this purpose, we decided to examine the following questions:

(1) Where did the concept originate?
(2) How did the concept evolve to its present state?
(3) Did the concept evolve differently in other societies?
(4) What links the legal concept with the accounting concept?
(5) How does all of this relate to the concept's future role?

In searching for answers, we traced the development of the concept of stewardship from its early Mesopotamian, Roman and English antecedents to the modern American corporate trustee/stewardship relationship. In the process we found that the emphasis of stewardship changed from the conservation of assets to the production of income. This parallels the same movement in corporate financial statements. Therefore, since the trust and corporate stewardship concepts have tended to move together, it is proposed that an examination of trust history might give us some insight into where the general concept of stewardship is heading. This methodology is supported by Johnson (1984) who argues that the study of accounting history is valuable in that it forces the accountant to contemplate the cause of change and to project the directions dictated by change.

Although English and American concepts of stewardship have a common origin in 13th century England, American stewardship today is not the same as English stewardship. In order to arrive at the modern American concept of stewardship we examine the changes that have occurred in each of the components that make up the stewardship relationship. In addition to the component/actor relationships, changes in the duties of persons acting as stewards are examined. These duties are: (1) preservation, (2) management, (3) distribution, and (4) accounting. Today, we find that the term stewardship is defined very broadly. According to Black's Law Dictionary, a steward is a person appointed in the place or stead of another. This requires that the steward perform the duties that the 'other' would have performed if the 'other' were still managing his/her own affairs. Therefore, the stewardship function necessarily entails managerial decision making as well as custodial duties.

EARLY HISTORY

Traditionally, historical researchers have tended to hold to the idea that stewardship is closely tied to the evolution of accounting (or bookkeeping). Binnsberg (1962, p. 6) found, 'By the time that ancient Rome reached its "glorious period" there is general agreement that records were being kept so that the Roman slave had satisfactorily and loyally discharged his appointed duties'. Because of this historical tie the stigma of being a servant or slave still has vestigial attachment to the manner in which a trustee is viewed. This is still apparent in some modern accounting reports, which are designed to allow the steward to account for the honesty of his/her
actions and not necessarily the quality of the decisions used in the administration.

The Roman slave/master relationship is not, however, the same as the trustee/beneficiary relationship that developed in medieval England. In substance, in the Roman situation, there was no separation of legal and beneficial ownership. In fact, the master was also owner of the slave into whose care he entrusted his property.

Before the Roman period, we find references indicating stewardship existed in the Babylonian and Egyptian civilizations. Stewardship is also mentioned in respect of the assets of the sanctuary in the Old Testament. Fiandra (1979), when studying Uruk tablets that recorded the entries and expenditures of goods in temple granaries, found the seals of various stewards who were controlling the movement of goods in the temple. Even earlier, Schmandt-Besserat (1978, 1982, 1986) has found that fired clay tokens were used in the prehistoric, preliterate neolithic world to represent the ownership of assets entrusted to others for storage and safekeeping. As opposed to Lister's series of unrelated events theory, the postulates, it was the form of this early accounting communication which eventually led to the evolution of writing.

While the credit for being the first to write texts is usually given to the Sumerian city states of the 4th millennium B.C., Schmandt-Besserat (1978, p. 50), found that the pictographs and ideographs (a pictograph is a somewhat realistic portrayal of what it represents, while an ideograph is an abstract representation or symbol) recorded on even the earliest of these clay tablets were similar to the clay tokens she found used for accounting records dating back to the 7th, 8th and 9th millennia B.C.

In our analysis, later in the paper, we will return to this evolutionary theme suggesting that, since accounting appears to be stewardship driven, a coherent legal/accounting theory of stewardship may find that evolutionary changes in the social and legal concept of stewardship subsequently lead to changes in accounting theory and procedures.

To proceed, we did indeed find that the emergent role of the steward in 13th century England was different from these precursor forms. The original purpose of the English steward was primarily to perform the function of legal ownership for some entity which did not have this privilege. Because under English law a trustee/steward could receive no compensation, unless the trust instrument specifically provided for compensation, trusteeship was considered an onerous and thankless task (Scott, 1967, p. 27). However, the trustee/steward was liable in courts of equity for failure to conserve the property that was eventually to be turned over to the remainderman. It is no surprise to see that the emphasis of accounting for the trustee's actions was directed toward the preservation of physical assets.
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EVOLUTION OF THE PERSONAL TRUST

Because the development of the personal trust has had such an immense influence on the development of the modern concept of stewardship, we can gain some insight into the stewardship concept by tracing the evolution of the personal trust.

The trust has its origin in the 'use' which was utilised in 13th century England as an attempt to evade the Statutes of Mortmain which prohibited the alienation of land to the Church (Jantscher, 1967, p. 17). The statute was circumvented by transferring the land to someone legally capable of owning it. The legal owner was then directed to hold it 'for the use' of some religious institution. This division of ownership between 'legal ownership' (vested in the trustee) and 'beneficial' or 'equitable ownership' (vested in the beneficiary) continues to this day.

One change that has taken place, however, is that while historical beneficiaries were almost always unable to legally own the property themselves their modern counterparts usually have no such difficulty. The problem of a beneficial owner being unable to secure legal ownership, therefore, is no longer a primary reason for the creation of a stewardship relationship.

In 1391, Richard II extended the Statutes of Mortmain to include cases where land was conveyed to individuals for the use of religious institutions (Scott, 1967, p. 14). Although the circumvention of the Statutes by the use was thus legally stopped, the use continued to be employed for other purposes; it made possible various dispositions of wealth that could only have been accomplished by using more inconvenient tools, such as estates, tenancies, bailments, and so forth (Jantscher, 1967, p. 18).

During the early part of the 15th century the Chancellor began to enforce uses. Recalcitrant feoffees (persons to whom land was conveyed for the use of third parties) were compelled to do what they had undertaken to do. During this period uses were often used to devise land. Although the policy of the feudal system forbade devises by its rule of primogeniture, tenants would make feoffments (a gift of a freehold interest in land) to the use of daughters and younger sons. Although there were other reasons why land was conveyed to uses, such as to prevent dower and courtesy or seisin on execution, the principal reason was to allow the owner to dispose of his land by will.

The next major change in the form of the use was caused by an English statute enacted in 1536 (Act 27 Henry VIII, c. 10), directed against the practice of creating uses in lands, and which converted the purely equitable title of persons entitled to a use into a legal title or absolute ownership with right of possession. The Statute is said to 'execute the use', that is, it abolishes the intervening estate of the feoffee to uses, and makes the
beneficial interest of the *cestui que use* an absolute legal title. Jentscher says, `... the present day trust may be dated from that statute' (p. 17). The substance of that Act was to make the only legal trusts of land ones in which active enforceable duties were imposed upon the trustee. This requirement exists for all trusts today.

Before the enactment of this Statute of Uses in 1536 the terms `use' and `passive trust' were synonymous. Afterward the term `passive trust' prevailed, except when the use was employed as a method of conveyancing under the Statute of Uses. According to Scott (1967, p. 19):

> `By the employment of uses lands were devised and heirs disinherited; conveyances were secretly made to the detriment of creditors and subsequent purchasers; lords lost their rights of wards, marriage, relief, heirloom, escheat, and side; married men were deprived of their tenancy by the courtesy and married women of their dower; the king was deprived of his rights in the property of persons attainted of treason and his right to waste for a year and a day the lands of persons attainted of felony; aliens were enabled to enjoy English lands.'

Actually, the Statute of Uses reflects the struggle between the king, the nobility and other landowners; it was an attempt by a dying feudal system to retain some of its power. The remedy, therefore, was very simple. Uses were not made illegal; instead, the person who had beneficial interest was also given the legal title. Equitable owners, then, were no longer able to evade their responsibilities under the feudal system by giving someone else legal ownership.

The use then came under the jurisdiction of the courts of common law and was no longer dealt with under chancery. This forced the courts to recognise uses and to develop a more definite and systematised law of trusts. It was fortunate that the science of the law of trusts was developed at a time when the common law was scholastic, because by the time the adjustment from chancery to common law was settled the law of conveyancing had been revolutionised (Scott, 1967, p. 20). This extends to the systems of conveyancing employed in the American States, which are either directly or indirectly based upon the Statute of Uses.

It was thought that the Statute of Uses would not only extinguish the abuses but that it would also make it impossible to separate legal and beneficial ownership. But the resulting legal struggles ended in the 17th century with the revival of trusts and the retention of the ability to separate the beneficial from the legal title (Scott, 1967, p. 20).

The retention of the ability to separate the beneficial from legal ownership resulted from two causes. First of all, the Statute did not execute a use or trust of any other interest than a freehold interest in land (*Restatement of the Law of Trusts*, p. 69). Secondly, before 10 years had passed from its enactment it was held that it did not apply to active trusts. According to Scott, `If the *feoffee* were directed to allow the *cestui que use* to take the
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profits, the use was executed by the Statute; but if the feoffee were directed
to take the profits and deliver them to the cestui que use, the legal estate,
was held, remained in the feoffee' (p. 21). Although in the case of a
passive trust the feoffee also had two active duties, to defend the property
against third persons and to convey the property to the beneficial owner
as he might direct, the existence of these two duties did not make the trust
active and the Statute executed the trust (Scott, 1967, p. 21).

The Statute did not execute active trusts because the beneficiary was
considered to have only a claim against the feoffee and not an equitable
estate in the trust property. Later, it became accepted that the beneficiary
of an active, as well as a passive trust, has an equitable interest. However,
at this time it was believed the Statute did not execute an active trust
because the legal title could not be transferred to someone who did not
already have an equitable title.

A second class of cases in which it was possible to separate legal and
equitable interests was a use '... raised on a term for years ...' (Scott,
1967, p. 22). The third class of cases in which the Statute did not execute
the use was '... if a use is raised on a use, although the first use is executed,
the second is not' (Scott, 1967, p. 22). These trusts that were not executed
by the Statute of Uses were tested in courts of common law. Therefore,
the passive trust that arose in the 17th century received its impetus from
the idea that equity should follow the law. This resulted in the systemising
of the law of trusts forming the system of personal trusts that we know
today.

While the above cases are not exhaustive they do emphasise that the
benefit of the development of the personal trust lies in the broad powers
that can be given a trustee/steward. This allows the steward to act in a
manner that would not be easily achieved, if at all, by other means.

TRUSTS OF PERSONAL PROPERTY

Another major step in the development of the concept of stewardship was
the evolution of trusts of personal property. While references to uses of
chattels extend back to the Norman Conquest, the generalised concept of
trusts of personal property is a modern phenomenon (Scott, 1967, p. 24).
It is only in recent times that a person's wealth consists more of personal
property than of land. While the notion of bailment was usually sufficient
for entrusting someone with personal property in the form of cattle, it was
not adequate for entrusting someone with money that was to be made
productive by investment. The law of trusts was, however, able to provide
the means to carry out this intention.

The types of income-producing securities held in trusts have also
changed. While government and corporate bonds and mortgages were
the most common types of trust investments during the early part of the 20th century, J. R. Comisky (1966, p. 77) estimated that by 1964 more than 60% of total trust assets were invested in common stocks. This shift to common stocks has serious implications for the trustee/steward. Although one of the duties of the trustee has always been, within reason, to make the trust assets productive, this had been secondary to the duties of safekeeping and protecting the trust estate. Because of the nature of common stocks, especially their volatility under changing economic circumstances, heavy utilisation of this type of security would seem to imply that the income-producing duty of the trustee/steward has become relatively more important than the conservation duties. This point is supported by the decision of the Mayo case (Minnesota Reports, 1960, p. 91).

According to Barclay (1961, p. 255), the most important aspect of the Mayo case was the decision rendered by the Minnesota Supreme Court that the trustee not only could but should invest part of the corpus of the Mayo trusts in common stocks in order to offset the effects of secular inflation. This decision was unique in that the investment powers granted to the Mayo trustees expressly forbade investment in common stock. In its decision the Court expressed the opinion that because the trustor was unaware of economic changes that occurred after his death he was unable to provide for them and therefore the Court must act in his stead. This infers that Dr Mayo, if alive in 1960, would have been convinced of the appropriateness, and also the necessity, of investing trust assets in common stocks.

Although no cases were found where trustee/stewards have been surcharged for failure to protect the corpus measured in terms of purchasing power, the Mayo case does establish that this is a part of the trustee/steward's maintenance duties. Therefore, any attempt to determine a modern concept of stewardship must consider this change in the steward's duties.

AMERICAN CORPORATE STEWARDSHIP

The development of stewardship in the USA took a somewhat different course, than it did in England. One difference was the development of the idea that trustees/stewards were entitled to a just compensation for their services. Another difference was the emergence of the corporate trustee. In England in 1743 Lord Chancellor Hardwicke told the Attorney General that it was clear that corporations might be trustees (Scott, 1967, p. 27). Therefore, when corporations began to apply for trust powers in the USA legal precedent had already been established.

The fact that corporations in the USA sought trust powers and trust
business while their English counterparts did not, can be attributed in part to the profit motive. The primary motivating cause, however, was to attract foreign capital (Stephens, 1954). While there was an abundance of capital in Europe at this time there was a shortage in America. Foreign investors were eager to seek ways to receive the higher interest rates that were available in the USA. These foreign investors, however, were worried about the safety of their capital and were reluctant to lend money to organisations about which they had only vague information. Therefore, corporations were granted trust powers as an inducement to foreigners to send their capital to America, to be managed as trustees for the employment of it. These early corporate trusts were the predecessors of our modern investment funds.

There were additional benefits from having a corporation act as the trustee/steward such as the continuity of life of the steward; corporations do not die. Another benefit was that the financial structure of the corporation often lessened the risk of default and relieved the investors from paying bonding fees. Another benefit was that corporations were developing an expertise that lessened the possibility of financial loss due to inept administration.

The corporate trustee in the USA has professionalised the concept of stewardship. The active solicitation of trust business by corporate trustee/stewards caused this business to become competitive. In addition, because many customers were not required to use corporate trustees, other institutions, such as insurance companies, were seeking this business. The corporate trustee/steward in order to gain a competitive advantage had to make its services at least as attractive as the customer’s alternative choices. Therefore, the corporate trustee/steward developed staffs of professional investment analysts and became an aggressive investor in the financial world.

STEWARDSHIP AS AN INTEGRAL PART OF ACCOUNTING

Since accounting has developed side by side with stewardship, we need to consider such questions as the degree of interdependence, mutual contribution, and their linked future prospects. To this purpose, we suggest that the coherence in stewardship’s own development over its history also provides for an understanding of the logical and consistent development of bookkeeping and accounting.

To begin, we need to dispel the notion that all that is accounting has been borrowed from other disciplines. Even today, a group of accounting researchers (Demski et al., 1991) have indicated that ‘...cycles of significant innovations—i.e., new ideas and concepts that periodically revolutionize
the field... are practically non-existent in accounting research. They add, 'Indeed, information content studies in financial accounting and agency theory in managerial accounting have been imported from other disciplines' (p. 1).

Clearly, this is not what Schmand-Besserat found in her study of accounting records prior to the emergence of writing in the early city states of the Fertile Crescent. Rather than accounting being capable of invention only because there already existed a written language, she postulates that it was the other way around. Schmand-Besserat proposes that, because of their similarity, the first ideograms in Sumerian script were borrowed from the earlier tokens that were used for accounting records (some of these tokens were dated to the 9th millennium B.C.). When searching for reasons for the use of these tokens, it seems quite likely that the records provided by the tokens were necessary so that when entrusting one's property to central granaries under the management of others it was not necessary to rely on memory. The use of these tokens enhanced internal control and also created records that could be verified by independent parties who might not have been present during the original transaction.

Indeed, several studies of early recorded commercial transactions (Most, 1959; Stone, 1969; Durant, 1935) found that it was customary for scribes other than those who prepared the original records to prepare summaries. These documents often contained marks such as dots, ticks, and circles at the side of figures, indicating some form of verification had been done.

This interdependence of stewardship and accounting was the rationale for explaining the demand for accounting numbers and auditing until well into this century. This rationale was based on casual observations of the way in which accounting numbers and auditing practices had developed (Venable, 1988, p. 15). This earlier stewardship concept '... suggested that the need for accountability arises whenever an individual entrusts his assets to a steward who is responsible for overseeing and/or managing the property' (p. 16). More recent models (Alchian & Demsetz, 1972; Jensen & Meckling, 1976), while supporting the earlier stewardship concept that recognises the need for accountability between interacting parties, go further and describe this as a contractual relationship (now commonly called an agency relationship). They propose that it is this contractual interaction which provides the demand for the monitoring role of the accounting and auditing functions.

According to Jensen & Meckling (1976), an agency relationship occurs when the principals engage an agent to perform some service on their behalf which necessarily requires the delegation of some decision-making powers to the agent. Because agents may engage in behaviour directed toward their own interests, adverse selection and moral hazard problems
can arise due to the lack of symmetrical information being readily available to both parties. The agency theorists then postulate that this lack of symmetrical information creates a demand for auditing... as a social control mechanism to enhance the contracting process which improves the operation of both the securities and managerial labor markets (Venable, 1988, p. 17).

THE AMERICAN/BRITISH INTERFACE

While the American concept of stewardship has characteristics similar to stewardship found in earlier societies, the advent of the use in 16th century England caused a change in the societal power structure of such a magnitude that the concept of stewardship that subsequently developed in America really dates from that time. Not only are the systems of conveyancing employed in the American states based either directly or indirectly upon the Statute of Uses, but this event marked the beginning of a concept of stewardship that is based on delegated powers instead of hereditary powers.

Not only was the original English concept of stewardship based on hereditary or 'sovereign power', but the artifacts of stewardship found in the burials of infants (such as at Tepe Gawa and Tell-es-Sawwan) suggest that, even in prehistory, the authority associated with stewardship was a hereditary function (Schmandt-Besserat, 1986, p. 269).

The shift from 'hereditary power' to 'delegated power' provided the means to fuel the rise of the modern American corporation with steward/managers selected on the basis of their various abilities instead of for hereditary reasons. However, at the same time that the power of the steward/manager was increasing in America, the power of the owner/shareholder was diminishing. At some point in this transition the power of the steward/manager became greater than the power of the owner/shareholder resulting in a disruption in the traditional social status structure.

Because of this change in the power structure, the modern corporate steward/manager that evolved in America in many ways no longer resembles the remembered historical steward/manager. The change in the steward's image may have been caused to some extent because, due to this increased power, the modern steward/manager no longer has to observe the obsequious behavior mannerisms of earlier stewards.

The behavior of actors cast in television and motion picture stewardship roles indicates that this overly subservient mannerism is still part of a popular, widely held American image of the stewardship function. For example, the 'banker' in the American situation comedy series The Beverly Hillbillies is always sent scurrying to attend to even the slightest whims of
his clients. The absence of this kind of behavior in modern stewards may explain, in part, why some people in America feel that stewardship has been forgotten or is dead.

SUMMARY

While stewardship has existed since prehistoric/preliterate times, it has changed as societies have changed. Believing this to be a coherent pattern rather than a "series of disconnected episodes . . .", we proposed that studying the concept's evolutionary history provides a valuable platform for conjecture about its present and future roles. Because we examined the concept in its sociohistorical context, we attempted to link the side by side development of the legal/accounting stewardship connection.

Since our main focus was on the American concept of stewardship, tracing the evolution of the stewardship concept from its English antecedents led us to the modern American corporation. We found the American trustee/steward today is professionally capable of aggressive investment management and actively seeks and expects to profit from the performance of stewardship duties. In addition, the steward is expected to account for how well the duties were performed. This accountability extends to how well the steward has employed managerial skills as well as the performance of preservation and distribution duties. Since stewardship and accounting have developed side by side, almost all aspects of accounting for the actions of contemporary corporate management have been affected, to some extent, by the evolutionary process concerning the legal responsibilities of stewardship.

However, changes in societal power structures have also created a new, more powerful image for the modern steward/manager, and along with this increased power have come some real abuses. Examples of the excess abuse of power, include the 'junk bond' scandal that nearly destroyed the American savings and loan industry. Because of incidents like this, some concerned persons in America are questioning what has happened to stewardship?

Further research is needed to answer the question regarding the future role of the concept of stewardship. That task, however, should begin with a thorough understanding of how the concept of stewardship has evolved to its present state. We suggest that at the present time stewardship is most likely not dead but has merely changed again. We need to proceed carefully, however, because if we do not understand the evolutionary history of accounting concepts it is quite possible to think that a concept has disappeared or is dead if we do not find it in its historically familiar form.
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