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Interaction between Economic Development Theory and Paradigm Shift in Accounting: Detected Footprints and Inferences

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Extensive Summary

1. Introduction

Primacy of institutions and primacy of human capital are the fundamental hypotheses that shape the recent view on economic development which asserts that increase in institutional quality and human capital accumulation causes economic development. In this sense, it is fair to say that political rights, civil liberties, democracy, rule of law, political risk (check and balance), education, health, entrepreneurial climate, capital per worker and R&D expenditure are the components of economic development according to related literature. Thus today, stakeholders have begun to demand information on these components to use them in their decision making processes. This has led to a paradigm shift in accounting which changes the focus from financial information to information. In other words, accounting has begun to include both financial and non-financial information. In this study, the effects of the improvements in economic development theory on the paradigm shift in accounting is being tried to be proven. In this context, footprints of economic development components in current reporting approaches were followed.

2. Paradigm Shift in Accounting

The accounting's adventure of transition to information orientation is based on a recent past and it can be said that there are two basic building blocks that prove that paradigm shift. These are the development of sustainability accounting and the emergence of an integrated reporting perspective. When these two important developments are considered together, the effect of the paradigm shift in accounting can be described as follows: Nowadays, the aim of accounting includes reporting of information set which includes both financial and non-financial information and a value

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set which includes both financial and non-financial values by using integrated reporting approach.

3. Methodology and Results

Sustainability reporting and integrated reporting are the building blocks that point to the paradigm shift in accounting. Economic development components are paired with GRI 102, standards of 200 and 400 series and capitals mentioned in international integrated reporting framework.

Standard 407 can be matched with political rights; standards 406, 408 and 412 can be matched with human rights; general stakeholder participation indicator of standard 102 and standards 411 and 413 can be matched with democracy level; standard 415 can be matched with rule of law; standard 102 can be matched with the general indicator of the corporate governance; standard 205 can be matched with political risk (balance and control); standard 403 can be matched with health and standard 404 can be matched with training.

R&D expenditure, capital per worker, and entrepreneurial climate of economic development components are not matched by selected standards. This deficiency is addressed by the integrated reporting approach.

The capitals mentioned in international integrated framework are matched to the components of economic development, essentially ignoring the financial capital. The matchings can be actualized as social capital with political rights; produced capital and human capital with R&D expenditure; the produced capital and human capital with capital per worker; intellectual capital with entrepreneurial climate; health and education with human capital. Therefore, integrated reporting approach reveals the effect of 6 of the 10 economic development components on the value creation process. As a result of the ecological dimension of the development being excluded from the study scope, the natural capital remained out of matching.

4. Conclusion

Economic development components are paired with GRI 102, standards of 200 and 400 series and capitals mentioned in international integrated reporting framework. 12 standards in 36 GRI standards and 4 in 6 types of capitals are directly matched with economic development components. Therefore, all of the components of economic development fall within the context of accounting and corporate reporting within the framework of integrated reporting methodology. Chronologically, economic approaches and assumptions quickly affect accounting and cause paradigm shift.